fcc

Advancing the business of
agriculture

2010-11
ANNUAL REPORT

Agriculture is vital to the Canadian economy, providing

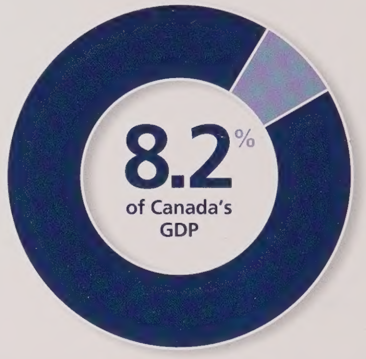
1 in 8 jobs

Each year, agriculture and agribusiness contributes

$130 BILLION

to the Canadian economy

Agriculture accounts for



Canada exports agriculture and agri-food products to

197 countries

Farmers

Suppliers

Processors

Transporters

Grocers

Restaurant workers

2.1 MILLION

Canadians bring food to tables throughout Canada and the world

We believe

in the strength of Canadian agriculture

Canadian agriculture is a highly complex, integrated and globally competitive industry. It is a vital and vibrant component of the Canadian economy that provides one in eight jobs, employs two million people and accounts for 8.2% of Canada's total gross domestic product.

Agriculture and agri-food spans the full value chain, from the farm input and service suppliers who serve farmers, to the food and beverage processing, food distribution, retail, wholesale and food service industries.

Working within a dynamic business environment influenced by currency risk, human resources challenges, evolving consumer trends, price volatility, globalization and many other factors, today's farmers and agribusiness operators are rising to the demands and opportunities of a rapidly changing industry.

FCC proudly stands for the future of Canadian agriculture, working with producers and others involved in the value chain. Every day, our 1,500 employees from coast to coast work on advancing the business of agriculture and helping customers succeed.

We develop products and services to meet the specialized needs of the industry. In addition to financial products (including insurance and leasing), we reinvest profits in learning events and knowledge, software and tools that help those who dedicate their lives to agriculture enhance their management practices.

We give back to the communities that our customers and employees call home by supporting local projects in every region of Canada, including food banks, rural enhancement and safety, and education about agriculture through targeted programs and funds.

We help customers and communities through challenging times. When the ground is too wet for crops to grow or too dry for them to mature, through bovine spongiform encephalopathy (BSE) and avian flu, when prices are volatile and sectors are experiencing a cyclical downturn, we're there to support our customers.

We believe in the strength of Canadian agriculture to expand and grow, and continue to evolve as a mainstay of our economy.

We are advancing the business of agriculture

The FCC

customer value proposition

FCC proudly serves Canadian agriculture as the leading provider of financing to the industry since 1959.

We focus on the primary producer as well as suppliers and processors along the agriculture value chain. We provide our customers with flexible financing, equity, insurance, management software, information and learning.

These services help our customers make sound business decisions and experience greater success.

We take time to get to know our customers, their individual needs, goals and vision for the future. We work with them through challenges and help them pursue opportunities.

We're easy to do business with.

Agriculture. We know it. We love it.
We're in it for the long run.

Operational and financial highlights

In 2010-11, industries around the world continued to deal with the impact of the global financial situation, and agriculture was no exception. FCC remained focused on its strengths – commitment to agriculture, knowledge and expertise, flexible and customized solutions, and consistent delivery of an exceptional customer experience. FCC remained financially sustainable in 2010-11, with growth in loans receivable of $1.6 billion or 7.9%.

The number of loans disbursed was 42,021 in 2010-11 and the average size of the loans disbursed was $146,432, resulting in net disbursements of $6.2 billion. Equity continues to grow as FCC generates positive net income. Growth in net interest income was $128.6 million. As the financial results indicate, FCC continues to build a strong financial foundation, which will help ensure continued funding for growth and investment in agriculture.

For the years ended March 31

Operational Highlights

	2011	2010	2009	2008	2007
Loans receivable portfolio					
Number of loans	120,070	114,439	106,867	98,066	101,470
Loans receivable ($ millions)***	21,334.5	19,770.4	17,098.5	14,992.1	13,550.4
Net portfolio growth (%)	7.9	15.6	14.1	10.6	10.1
Loans receivable in good standing (%)	97.9	97.7	97.5	97.4	97.4
New lending					
Number of loans disbursed	42,021	41,418	31,037	32,561	28,684
Net disbursements ($ millions)	6,153.2	6,585.6	5,068.4	4,285.0	3,714.7
Average size of loans disbursed ($)	146,432	159,003	163,302	131,600	129,504

Financial Highlights

	2011	2010	2009	2008	2007
Consolidated balance sheet ($ millions)					
Total assets***	21,910.1	20,286.3	17,802.7	15,470.5	13,834.2
Total liabilities**	19,141.5	17,941.2	15,519.2	13,693.5	12,372.1
Equity**	2,768.6	2,345.1	2,283.5	1,777.0	1,462.1
Consolidated statement of operations ($ millions)					
Net interest income	738.5	609.9	508.0	434.4	415.5
Provision for credit losses	27.9	91.4	70.0	5.0	38.9
Other income	16.0	10.3	6.2	14.4	7.7
Administration expenses	270.8	255.2	231.4	197.6	180.5
Fair value adjustment*	3.4	6.6	(1.7)	(41.1)	0.0
Net income**	459.2	280.2	211.1	205.1	203.8

*The fair value adjustment was introduced in 2008 as a result of changes to the accounting standards related to financial institutions
**Total liabilities, total equity and net income have been adjusted to reflect the current presentation of non-controlling interest
***Loans receivable, total assets and total liabilities for 2010 have been restated as a result of a prior period adjustment

The average hen produces 300 eggs a year.

Corporate profile

Farm Credit Canada (FCC) is a financially self-sustaining federal Crown corporation reporting to Parliament through the Minister of Agriculture and Minister for the Canadian Wheat Board. Our corporate office is located in Regina, Saskatchewan. We provide financing and other services to primary producers, value-added operators, suppliers and processors along the agriculture value chain. Operating from 100 offices located primarily in rural communities, our 1,500 employees are passionate about the business of agriculture.

Our roots date back to 1929, when the Canadian Farm Loan Board (CFLB) was established to provide long-term mortgage credit to farmers. In 1959, the Farm Credit Act established FCC as an agent Crown corporation named in Part 1 of Schedule III of the Financial Administration Act, making us the successor to the CFLB.

In 1993, the Farm Credit Corporation Act was proclaimed into law, providing an expanded mandate and broader lending and administrative powers. Under the new mandate, FCC could provide financial services to farming operations, including individuals, farming corporations and farm syndicates under the authority of one Act.

In 2001, the Farm Credit Canada Act received royal assent, allowing us to offer an even broader range of services to producers and agribusiness operators.

Vision

Visionary leaders and trusted partners in finance and management services tailored to agriculture – leveraging our people's specialized knowledge and passion to create an extraordinary customer experience.

Mission

To enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small and medium-sized businesses, that are businesses related to farming. The primary focus of the activities of the corporation shall be on farming operations, including family farms.

Corporate values

FCC's corporate values represent our core beliefs:

Focus on the customer

We succeed when our customers succeed. To help them, we listen and work to understand their needs.

Act with integrity

We treat people – colleagues and customers – with respect, balancing business decisions with individual needs.

Work together

We believe in the power of teamwork. We work together with customers to design services tailored to their needs. We partner with other organizations to benefit our customers.

Give back to the community

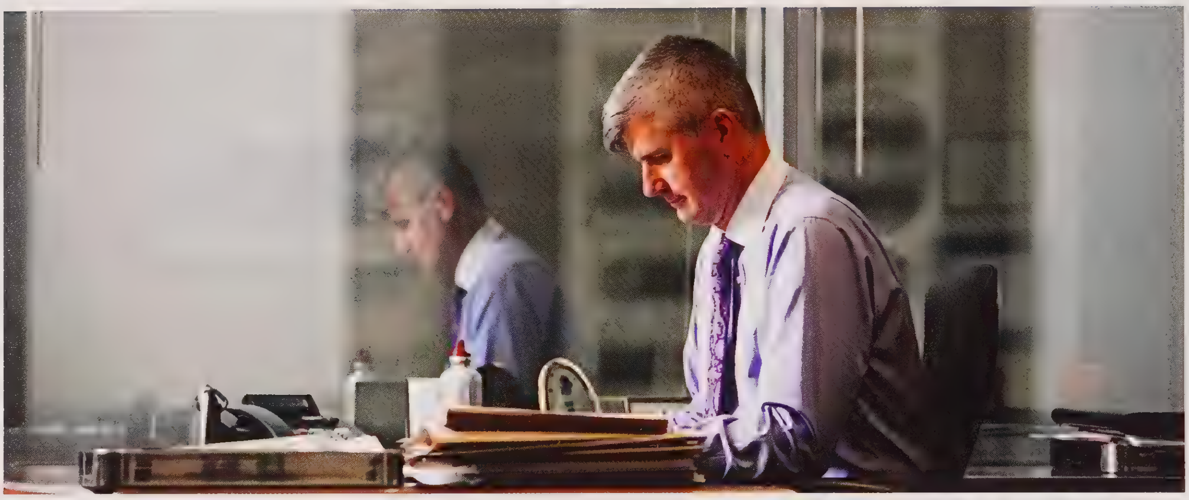
We believe in giving back to our communities – the communities where our customers and employees live and work.

Achieve excellence

We are committed to one thing – the success of the Canadian agriculture industry. We always set our sights high, strive to learn more and work to build a business that benefits our customers and helps our employees achieve their potential.

Wheat, hay and canola are the top three crops grown in Canada.

Message from the President and CEO



It is a privilege to lead an organization that serves such an important and vibrant industry. The Canadian agriculture and agri-food industry is modern and internationally competitive. It provides one in eight jobs and contributes over 8% to this country's gross domestic product. Canada is the fourth largest exporter of agriculture and agri-food products in the world, with exports valued at $35.3 billion and imports of $28.1 billion. Agriculture is a huge industry.

On the global front, the economy is slowly improving, leading to increasing demand for agriculture and agri-food products. Market volatility continues to be an important factor as consumer demand has increased and production issues in Canada and other parts of the world have reduced supply. This, in turn, resulted in stronger commodity prices in the latter half of 2010. Grains and oilseeds as well as beef and pork prices increased due to strong demand and increasing profitability in these sectors. Profits for dairy and poultry producers remained stable. Excessive precipitation in parts of Western Canada presented unprecedented challenges for crop and forage production. FCC responded by implementing a customer support program to assist producers affected by this situation.

Despite the challenges, we believe there are opportunities and the future looks bright for agriculture – a view that is shared by many in the industry. Three-quarters of the 9,000 producers and agribusiness operators we surveyed believe that their operations will be better off in five years. Their expectations for future growth are also higher. Producers and other agribusiness operators are innovative and forward-thinking. They have to be in order to run businesses that face unrelenting complexities – from commodity, disease and weather risk to food safety and traceability, global economics and human resources management. This industry is not for the faint of heart.

FCC is proud to be the only financial institution in Canada focused exclusively on the agriculture value chain. We are committed to helping our customers achieve their goals through good and challenging times. Our customers range from traditional agriculture (such as dairy, beef, hogs and grains and oilseeds) to wine producers, greenhouses, value-added agribusinesses, food processors and manufacturers. Each are industries in their own right that are very different from each other in terms of how they are impacted by market forces, regulations and consumer demands. Customers and stakeholders often tell us that they appreciate FCC's commitment to the industry through its various cycles and our understanding of its complexities.

Our purpose is to enhance rural Canada by providing specialized and personalized business and financial services and products that address all of these unique

aspects of agriculture. We provide access to capital to all parts of the country, to all agriculture-related industries and sectors, all the time. Our products and services are tailored to the unique needs of agriculture and agri-food, including a new generation of producers: young farmers.

We believe the future of farming depends on our ability to attract young farmers with the skills needed to take over farms and other agribusinesses. Close to 8% of Canadian farms across all sectors are run by young farmers. FCC supports them at every stage with financing, learning opportunities and more. In 2010-11, young farmers borrowed $1.6 billion from FCC to finance their dreams. Agriculture is a dynamic and progressive industry that needs our best and brightest. The more they flourish, the more they build a solid future for the industry.

Another way that we advance the business of agriculture is through our learning programs. We know from experience that management sophistication makes or breaks the success of businesses involved in agriculture. That's why we reinvest profits to develop the important management skills they need to navigate today's rapidly changing marketplace. We support them by sharing relevant information and knowledge through workshops, seminars, forums, and various publications and tools – all of which are offered free of charge, whether the participant is a customer or not. Last year, we hosted more than 85 educational workshops across the country on a number of timely topics, ranging from managing farm finances to succession planning.

We also think it's important to demonstrate our continued support for the rural communities where our customers and employees live and work. In 2010-11, the national FCC Drive Away Hunger program raised over 1.7 million pounds of food for Canadian food banks. This was a record for the program, and, more importantly, it went directly to food banks in your area. Together with our community partners, we are happy to make a difference. That's what this program is all about.

Every day, we rely on our employees to deliver these products and services – to make a difference to Canadian agriculture. We hire for expertise and attitude, and then offer comprehensive development plans, including coaching on very specific behavioural expectations. We are proud to be one of the top 50 employers in Canada. Our employees are highly engaged, want to stay at FCC and do their absolute best. We know agriculture inside out. In short, as so many customers and stakeholders tell us, we "get" agriculture.

We measure our success by what our customers say about us. It is not an overstatement to say we love our customers, and I'm happy to say that they love us back. Six out of 10 FCC customers give us perfect scores when we poll them on various aspects of the customer experience. And, when our customers are successful, we are successful. With 100,000 customers and 18 consecutive years of growth, FCC is strong and stable. In 2010-11, the FCC loan portfolio grew to $21.3 billion from $19.8 billion in 2009-10. A total of $6,153 million in disbursements was extended to over 31,565 customers across Canada. New lending to the industry exceeded $5 billion.

A trustworthy and stable financial partner that understands the business of agriculture has never been more important. We are very proud to work with the people involved in this industry. Agriculture is more than a career. Those who work in the industry manage complex operations. They are resilient, agile and innovative. They respond to changing consumer demands, advances in technology, integration and globalization. They build strong relationships with employees, suppliers along the value chain, government, trade associations and stakeholders to get their goods and services to market. They recognize that they are a part of something big, and they passionately give it their all each and every day.

At FCC, we know the industry and we love it too. We're here to support our farmers and other agribusinesses and help them succeed every step of the way.

Greg Stewart, President and CEO

Canada produces 4.41 million tonnes of potatoes a year.

Message from the Board Chair

Agriculture is a very important contributor to the Canadian economy. Dynamic, integrated and constantly changing, agriculture businesses are innovative and span the full value chain. From inputs and primary agriculture to processing, this industry is vibrant and growing.

FCC serves Canadian agriculture by giving back to the industry in ways big and small. This year, FCC approved more loans to young farmers, offered more learning events to producers and agribusiness operators and provided support to rural communities.

Today's producers work within a complex industry. They keep pace with technology changes and equip themselves with the most up-to-date information, programs and tools. FCC's highly trained staff and customized loan products and services for agriculture make FCC a perfect choice to serve the industry's financing needs.

FCC reports to Parliament through the Minister of Agriculture and Minister for the Canadian Wheat Board. The corporation's mission is to enhance rural Canada by providing specialized business and financial services to the full agriculture value chain.

I am very proud to serve on the FCC Board with my fellow Directors. The Board provides strategic direction and holds management accountable for demonstrating transparency, accountability and ethical conduct. We ensure that FCC fulfils its mandate in the best interest of farmers and agribusinesses, as well as the organization. We also ensure that as a Crown corporation, FCC acts in the best interest of all Canadians.

I've met many FCC employees throughout my term as Board Chair. Their dedication to our customers, passion for agriculture, knowledge and enthusiasm are second to none. On behalf of the Board, I thank them for their work.

I am confident that the year ahead will see FCC continue to play an instrumental role to advance the business of agriculture.

Respectfully submitted on behalf of the Board of Directors,

Gill Shaw

Gill O. Shaw, Board Chair

Soybean oil paint is non-toxic and environmentally friendly.

Message from the Agriculture Minister

Canada's agriculture industry fuels economic growth, creates jobs and feeds families here in Canada and around the world.

The Government of Canada is committed to supporting the growth and prosperity of agriculture. Farm Credit Canada (FCC) shares in this vision as it continues to serve an increasingly complex industry by providing financing and loan products tailored to the unique needs of its customers. Fair interest rates, an unwavering commitment to producers, and investments in new knowledge and management skills make FCC an essential player on the agriculture landscape.

I congratulate FCC on its 18th consecutive year of growth and its work advancing the business of agriculture, and serving the communities where its customers and employees live and work in all regions across Canada.

In addition to serving farm families, each year, FCC partners with schools, businesses, community groups and customers to fight hunger in our country. FCC Drive Away Hunger is recognized as a leading program that raises support for Canada's food bank community. Since 2004, the program has collected over 5.2 million pounds of food to help feed people in need.

Through the FCC AgriSpirit Fund, the corporation awarded $1 million in funding in 2010 for 104 capital projects that enhance rural communities.

Recognizing that young farmers are the lifeblood of a healthy, vibrant industry, FCC offers support to help them succeed.

Our Government is proud of the great work and valuable commitment that FCC and its employees make each day to the success of Canadian agriculture.

Together, we look forward to another productive and profitable year.

Gerry Ritz, Agriculture Minister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FCC and public policy

Statement of priorities

FCC supports the federal government's vision of a profitable agriculture industry that seizes opportunities, responds to market demands and contributes to the health and well-being of Canadians.

The Minister of Agriculture has established the following priorities to ensure FCC continues to strengthen the agriculture industry:

- Continued attention to maintaining FCC as a self-sustaining Crown corporation. In this time of economic recovery, it is vital that FCC continues to make its full range of credit products available to the agriculture industry in Canada. Access to short-term credit, long-term mortgages and venture capital is essential to the viability and success of the entire agriculture value chain. FCC interest rates should be competitive with those offered by other financial institutions – neither the lowest nor the highest, in order to serve as a fair participant in the agriculture financing marketplace. FCC should continue to work with Business Development Bank of Canada and Export Development Canada to ensure agribusinesses in Canada have access to a range of financial services that will allow them to grow, diversify and expand, both within and outside of Canada.
- Continued support for renewal in agriculture. FCC should continue to work with young farmers to offer products that will help them get established and that will help the intergenerational transfer of family farms throughout Canada. Working with stakeholders and in collaboration with Agriculture and Agri-Food Canada (AAFC), FCC should continue to offer unique business services, workshops and learning forums, as well as publications and educational offerings tailored to the particular needs of producers and agribusiness operators. Continuing to hire and develop employees who are passionate and knowledgeable about Canadian agriculture is also important to this renewal.
- Continued presence as a socially responsible corporation. FCC should continue to assist producers and agribusiness owners in an increasingly green economy, including through products like the FCC Energy Loan. FCC should play an important role in promoting sustainable environmental practices and food safety by supporting traceability in the agricultural supply chain through products such as its Field Manager PRO software. FCC should also continue to provide environmental information to its customers and continue to fulfil its obligations under the Canadian Environmental Assessment Act by conducting environmental assessments. In keeping with other areas of the federal government, FCC should also pursue strategies to reduce its environmental footprint.
- Increased collaboration with AAFC on policy and programs. FCC should increase its collaborative efforts with AAFC on key issues impacting the sector, including the design and development of the next policy framework to succeed Growing Forward. FCC also should continue to provide advice and expertise to AAFC in regard to sector-specific issues and programs, such as the Hog Industry Loan Loss Reserve Program.
- FCC continues to be well managed. Financial systems and accountability measures ensure the effective use of public funds, and that stakeholders and the public are served by a skilled, motivated and representative workforce. Budget 2010 set out a clear direction regarding spending restraint, including a freeze in operating expenses at 2010-11 levels.

There are nearly a million dairy cows in Canada.

We stand for the future of Canadian agriculture

Through the Growing Forward policy framework, federal, provincial and territorial ministers have committed $1.3 billion for non-Business Risk Management (non-BRM) programming between 2008 and 2013. This programming includes food safety, biosecurity, traceability, sustainable management practices, business development, innovation, commercialization and automation.

In addition to cost-shared programs delivered by provinces and territories, Agriculture and Agri-Food Canada (AAFC) has also committed over $1 billion in federal funds over five years to federal initiatives. Business Risk Management (BRM) programs include:

- AgriInvest, a savings account for producers, providing flexible coverage for small declines in income and supporting investments that help to mitigate risk or improve market income
- AgriStability, a margin-based account, providing income support when producers experience larger income losses
- AgriRecovery, a disaster-relief framework, providing rapid assistance when producers experience small disasters
- AgriInsurance, includes existing production insurance and other products, will expand to include other commodities

We are proud to serve all of agriculture, all the time – all sectors, all across Canada

FCC's public policy mandate

FCC enhances rural Canada by providing specialized and personalized business and financial services and products to family farms, farming operations and small- and medium-sized businesses related to farming.

Our public policy role is the foundation of everything that we do to advance the business of agriculture. With over 100,000 customers* nationwide, we help producers and agribusiness operators succeed in an increasingly complex and demanding industry.

FCC provides financing to producers of all ages and agriculture operations of all sizes across all sectors. We loan money to agribusinesses, including suppliers and processors that serve producers. A healthy value chain provides producers with more stable purchasing and selling options.

In 2010-11, 37,891 customers received loans or other financial products through one of FCC's 100 offices, located primarily in rural areas across Canada:

British Columbia and Alberta – 10,107
Saskatchewan and Manitoba – 11,971
Ontario – 10,571
Quebec – 3,812
Atlantic – 1,430

Among these customers, 36,035 are primary producers and 1,856 are agribusiness and agri-food operators.

We are dedicated to agriculture and take the long-term view

FCC is a profitable, financially self-sustaining commercial Crown corporation. Our strong financial position enables us to create innovative products and services that are tailored to the dynamic needs of the industry and ensure that producers and agribusiness operators have choices in the marketplace.

Our loan products recognize that agriculture is a cyclical industry and that it takes time for business operations to flourish. Unpredictable weather and market conditions can negatively affect even the best producers and agribusiness operators. We support our customers through highs and lows.

Canada exports pork to over 143 countries.

*FCC currently has 100,000 customers. The customer number has been restated to include all customers with an active loan balance who are primary borrowers, co-borrowers or guarantors for personal and corporate loans, including primary production, agribusiness and agri-food, and alliances.

Our customer support strategy helps producers manage when unexpected challenges arise.

This year, we provided support for hog customers across Canada and crop producers in Alberta, Saskatchewan and Manitoba who were affected by excess moisture.

We are visionary and operate our business in a sustainable manner

FCC offers unique products and services to help young farmers and agribusiness entrepreneurs succeed in a sophisticated marketplace that continually evolves.

We believe that knowledge is vital to the success of our customers and the industry. We offer workshops, publications and learning forums across the country, and encourage employees and customers to share insights and information.

Our corporate social responsibility framework focuses on customers, the environment, employees, community and agriculture and food.

To support our commitment, we offer environmental information and products to our customers, hire and develop employees who are passionate and knowledgeable about agriculture, give back to the communities where our customers and employees live and work, and we are working to reduce our corporate environmental footprint.

FCC supports young farmers with customized loan products and special initiatives such as Business Planning Awards, 4-H partnerships, FCC Learning workshops and tools like FCC Management Software. In 2010-11, we disbursed over $1.6 billion in loans to help young farmers build their dreams.

Corporate governance

We are accountable to the Parliament of Canada

FCC is governed by the Farm Credit Canada Act and the Financial Administration Act. Like other Crown corporations, we are subject to laws such as the Federal Accountability Act, the Privacy Act, the Access to Information Act, the Canadian Environmental Assessment Act and the Official Languages Act.

Representing the interests of Canadian people, particularly those who make their livelihood in the agriculture sector, the corporation's Board of Directors oversees FCC's business operations.

Directors are appointed by the Government of Canada through the Minister of Agriculture and Minister for the Canadian Wheat Board. The Board members are appointed by the Governor in Council upon the recommendation of the Minister of Agriculture and Agri-Food. Except for the President and CEO, Board members are independent of management. They bring a combination of senior agriculture, business and financial experience to the task of governing an organization with seven lines of business that serves an increasingly complex industry.

Board composition

The Board is composed of 12 members, including the Chair and the President and CEO. Directors serve terms of up to four years and may be re-appointed.

Board members include successful primary producers and agribusiness operators from rural and small urban centres. The Board strives for diversity – gender, geographic, ethnic, culture, age and language – to reflect the broad spectrum of agriculture in Canada.

The Board is committed to financial transparency and the Audit Committee works closely with the Office of the Auditor General (OAG) of Canada to ensure the integrity of FCC internal controls and management information systems. The OAG audits FCC every year and performs a special examination at least every 10 years. The last special examination was completed in 2007.

Every year, FCC's annual report and five-year corporate plan are approved by FCC's Board of Directors. The annual report and a summary of the corporate plan are then submitted to the Minister of Agriculture and the President of Treasury Board to be tabled before each House of Parliament.

We build relationships with our partners, stakeholders and customers

FCC looks to a variety of stakeholders and partners for guidance and expertise in public sector governance practices.

FCC regularly meets with Agriculture and Agri-Food Canada, the Treasury Board Secretariat, the Department of Finance and other Crown corporations to ensure that its policies and procedures are current and sound. Twice each year, we collaborate with Export Development Canada and the Business Development Bank of Canada to share ideas and best practices about ways that we can work together to benefit customers. We also seek opportunities to work with banks and credit unions to meet the financial needs of our customers.

Our 9,000-member FCC Vision Panel includes Canadian producers, customers and others involved in agriculture who share their ideas, knowledge and insights on a voluntary basis. Their input helps us to ensure that our products and services meet the needs of the agriculture industry.

In addition, the Board hosts an annual public meeting every August where we report our activities and financial results and listen to feedback from interested stakeholders and the Canadian public about our mandate and strategic direction.

FCC attends the annual meeting of the Canadian Federation of Agriculture and the Canadian Young Farmers Forum. Employees also attend events and meetings hosted by other industry and producer groups to share knowledge and solicit input and feedback on issues facing agriculture.

Flax is used in the creation of Canadian currency.

We take care of the business

The Board oversees the strategic planning process and provides input, guidance, validation and a critical evaluation of strategic plans and initiatives. After plans are approved, the Board provides support to implement them and measure success. Strategic initiatives are reviewed throughout the year.

The roles and responsibilities of the Chair, Board members, the CEO and all committees are set out in written profiles and charters. The charter and related governance guidelines establish the Board's responsibilities in six major areas:

- integrity – legal and ethical conduct (setting the tone at the top)
- strategic planning
- financial reporting and public disclosure
- risk management and internal controls
- leadership development and succession planning
- corporate governance including director orientation, continuing education and evaluation

The corporation has a well-established enterprise risk management process designed to identify potential events that may affect business operations. The Board ensures that appropriate authorities and controls are in place, risks are properly managed, and that the achievement of goals and objectives is not in jeopardy.

Senior FCC leaders work closely with the Board to ensure that the Board is fully aware of the organization's affairs. The Chief Financial Officer and the Chief Operating Officer attend every Board meeting. Two other members of the Executive Management Team also attend meetings on a rotating basis to strengthen the relationship between the Board and management. There is time set aside at each meeting for the Board and each of its committees to meet without management present.

The Board follows a formal approach to CEO goal-setting and performance review that is consistent with the Performance Management Program established by the Privy Council Office.

Board performance

Upon appointment to the Board, each member receives a detailed orientation and meets with senior management to learn about the business. To gain an understanding of FCC's business, Board members regularly visit customer operations and employee meetings. In addition, many members attend conferences and seminars that are relevant to corporate governance and the business of FCC. Some are also involved in director certification programs.

The Board regularly assesses its collective performance and the individual performance of its members through a structured self-evaluation process.

Position profiles for the Chair and individual Directors are reviewed annually to ensure that they continue to accurately describe desired competencies and skills. Board members self-assess their competencies and skills. Gaps are addressed through new appointments, training and by hiring outside experts.

Compensation

Directors are paid an annual retainer and per diem amounts that are established by the Governor-in-Council, pursuant to the Financial Administration Act. Rates were last set on January 8, 2008.

- The Board Chair receives an annual retainer of $12,400.
- Committee Chairs receive an annual retainer of $7,200.
- Other Board members receive an annual retainer of $6,200.
- All members, including the Chair, receive a per diem of $485 for meetings, training sessions, travel time and FCC-sponsored events.
- Directors are reimbursed for all reasonable out-of-pocket expenses including travel, accommodation and meals while performing their duties.

An enzyme extracted from corn is used to make insulin.

During 2010-11, there were five Board meetings and 14 committee meetings. Total remuneration (annual retainer and per diems) paid to all Directors was $220,232.50. Total Board travel and related expenses were $155,545.62, compared to $186,114.25 in 2009-10.

2010-11 Board remuneration, attendance and expenses

Director	Board retainer (A)	Per diems (B)	Total remunerations (A&B)	Board meeting attendance	Committee meeting attendance	Board travel and related expenses
Caroline Belzile	$ 6,200.00	$ 14,065.00	$ 20,265.00	5 of 5	5 of 5	$ 13,431.77
Donald Bettle	6,200.00	14,550.00	20,750.00	5 of 5	4 of 4	17,140.05
Caroline Granger	7,200.00	11,640.00	18,840.00	5 of 5	4 of 4	10,317.35
Brad Hanmer	7,200.00	6,305.00	13,505.00	5 of 5	5 of 5	4,078.68
Ron Hierath	6,200.00	14,550.00	20,750.00	5 of 5	4 of 4	19,496.52
John Klippenstein	7,200.00	15,277.50	22,477.50	5 of 5	5 of 5	12,809.24
Gilles Lapointe	6,200.00	12,610.00	18,810.00	5 of 5	5 of 5	15,805.60
Ross Ravelli	6,200.00	13,095.00	19,295.00	5 of 5	5 of 5	15,053.36
Gill O. Shaw	12,400.00	15,520.00	27,920.00	5 of 5	5 of 5	22,029.76
Jason Skinner	6,200.00	10,670.00	16,870.00	5 of 5	5 of 5	8,134.56
Carl Spencer	6,200.00	14,550.00	20,750.00	5 of 5	4 of 4	17,248.73
Total	**$ 77,400.00**	**$ 142,832.50**	**$ 220,232.50**			**$ 155,545.62**

There were five Audit, five Human Resources and four Corporate Governance Committee meetings.

Code of conduct, ethics and values

At FCC, acting with integrity and maintaining the highest ethical standards are vital priorities. On appointment and every year during their tenure, each Director signs a declaration committing to act in accordance with FCC's Code of Conduct and Ethics. The Board has also established a process to directly disclose any potential violations of the code by the CEO or his direct reports, and a policy that specifies how to deal with situations where a Director has a conflict of interest. FCC's integrity officer discloses all possible violations of the code and discusses ongoing employee education and awareness with the Board annually.

In addition, the Audit Committee reviews the travel and hospitality expenses of the CEO quarterly and a listing of all contracts over $50,000.

Audit Committee

Chair: John Klippenstein
Members: Gill O. Shaw (Board Chair), Gilles Lapointe and Jason Skinner

Members of the Audit Committee are independent of management. All committee members are financially literate and several members are considered to be financial experts, as those terms are now commonly used with respect to the composition of audit committees.

The Audit Committee oversees FCC's financial performance and ensures the integrity, effectiveness and accuracy of the corporation's financial reporting, control systems and audit functions.

This committee meets regularly in private with representatives of the Office of the Auditor General of Canada, FCC internal auditors and management.

Human Resources Committee

Chair: Brad Hanmer
Members: Greg Stewart (CEO), Caroline Belzile and Ross Ravelli

This committee reviews all major human resources policy matters. The Human Resources Committee is responsible for advising the Board with respect to the skills and characteristics essential to the position of the CEO, how to assess the CEO's performance and working with him to agree on an annual development plan.

The Human Resources Committee is responsible for reviewing the corporation's succession plan, including plans for training and development of all employees, and for the review of the executive perquisites program with respect to senior management.

Corporate Governance Committee

Chair: Caroline Granger
Members: Ron Hierath, Donald Bettle and Carl Spencer

The Corporate Governance Committee reviews and makes recommendations to the Board with respect to sound governance practices. It also oversees the corporation's strategic planning process, including enterprise risk management and FCC's corporate social responsibility program. This committee also acts as the Board's nominating committee.

The Corporate Governance Committee regularly reviews the number, structure and mandates of the Board's committees and is responsible for conducting Board evaluations concerning the performance of Directors, committees and the Board as a whole. The Corporate Governance Committee also oversees the corporation's and the Board's policies on ethics, conflict of interest and code of conduct for FCC employees and Directors.

Car airbags contain corn starch.

Board of Directors*

Gill O. Shaw, MBA, B.Sc.Ag.
Chair, FCC Board of Directors

Retired CEO
Manitoba Agricultural Credit Corporation, Brandon, Manitoba
Appointed Chair October 30, 2006
Reappointed Chair August 4, 2009

Greg Stewart, P.Ag.
President and CEO
Farm Credit Canada

Regina, Saskatchewan
Appointed January 1, 2008

Caroline Belzile, D.T.A.
Co-owner, beef, hog and grain farm and sugar bush

Saint-Elzéar, Quebec
Appointed January 29, 2008

Donald Bettle
Owner, cow/calf operation and woodlot

Passekeag, New Brunswick
Appointed January 25, 2007

Caroline Granger
President and CEO
The Grange of Prince Edward Vineyards and Estate Winery

Hillier, Ontario
Appointed June 27, 2007

Brad Hanmer, B.Sc.Ag.
Co-owner/operator, commercial grain and pedigreed seed farm

Govan, Saskatchewan
Appointed January 25, 2007

Ron Hierath
Realtor, residential and agricultural sales

Lethbridge, Alberta
Appointed January 25, 2007

John Klippenstein, CMA
COO, Klippenstein Management Services

Steinbach, Manitoba
Appointed July 30, 2008

Gilles Lapointe, B.Comm., CGA, CFP
Partner, BDO Dunwoody LLP

Casselman, Ontario
Appointed March 11, 2008

Ross Ravelli
Owner, Ravelli Farms Ltd.

Dawson Creek, British Columbia
Appointed February 10, 2010

Jason Skinner, M.Sc., P.Ag.
CEO, NorthWest Terminal Ltd.

Wilkie, Saskatchewan
Appointed February 12, 2009

Carl Spencer, B.Sc.Ag.
Owner/operator, beef farm and maple syrup operation

Tara, Ontario
Appointed November 26, 2009

Canola oil is part of the compound used to de-ice planes.

*Full biographies are available at www.fcc.ca.

Executive Management Team

Greg Stewart, P.Ag.
President and Chief Executive Officer

Moyez Somani, CMA, MBA, FCMA
Executive VP and Chief Financial Officer
*Retired effective June 3, 2011

Rick Hoffman, CMA, MBA
Executive VP and Chief Financial Officer
(Effective May 23, 2011)

Rémi Lemoine, MBA, CCP
Executive VP and Chief Operating Officer

Lyndon Carlson, P.Ag.
Senior VP, Marketing

Kellie Garrett, MA, ABC, MC
Senior VP, Strategy, Knowledge and Reputation

Michael Hoffort, P.Ag.
Senior VP, Portfolio and Credit Risk

Greg Honey
Senior VP, Human Resources

Paul MacDonald
Senior VP and Chief Information Officer

FCC has attracted a senior team of professionals with diverse talents and experience. Our Executive Management Team (EMT) members are sought after as best practice leaders in their professions, and they actively volunteer in their communities. Each member of EMT believes that a culture characterized by open communication and trust results in engaged employees who forge great relationships with customers.

EMT is responsible for corporate decision-making, including the strategic vision, investment strategy, allocation of enterprise resources and resolution of major strategic issues.

All executives, with the exception of the President and CEO, are paid within salary ranges and compensation policies approved by the Board of Directors. The Governor-in-Council establishes the President and CEO compensation. All executives receive a variable remuneration component linked to the performance of the corporation, the business unit and the individual. In 2010-11, the salary range for the President and CEO was set at $281,400 to $331,000. The salary range for Executive Vice-Presidents was $209,605 to $320,570. The salary range for Senior Vice-Presidents was $151,920 to $232,345.

*Congratulations to Moyez Somani who made an outstanding contribution to the financial management of FCC and its strategic direction. As a result of Moyez's retirement, Rick Hoffman was promoted to Executive Vice-President and CFO, effective May 23, 2011.

FCC Rosemary Davis Award

As agriculture continues to evolve, so does the face of the industry. More and more women are being recognized for their innovation and leadership in the field. This year, we are proud to honour five of these outstanding women as the 2011 winners of the FCC Rosemary Davis Award.

The award is presented annually to women across Canada who serve as role models to others in the agriculture industry. Successful producers, agrologists, mentors, educators, agribusiness operators and volunteers, these women display a knowledge and passion for agriculture that is second to none.

Liliane Colpron
Businesswoman, agri-food industry leader, visionary

Montreal, Quebec

Bertha Campbell
Registered nurse, co-owner, volunteer

Kensington, Prince Edward Island

Wynne Chisholm
Cow-calf producer, management consultant, volunteer

Calgary, Alberta

Sherri Grant
Producer, educator, volunteer

Val Marie, Saskatchewan

Rossana Di Zio Magnotta
Philanthropist, educator and entrepreneur

Vaughan, Ontario

This award is named for Rosemary Davis, the first woman to chair FCC's Board of Directors. FCC is proud to honour her contributions to the industry as a successful agribusiness owner and operator.

Canada produces 85% of the world's maple syrup.

Corporate social responsibility

At FCC, we take corporate social responsibility seriously. It's part of our corporate vision and guides how we operate.

We give back to the communities where our customers and employees live and work, strive to reduce our impact on the environment and contribute to the success of the Canadian agriculture industry.

Agriculture and food

We support the development of a sustainable, competitive and innovative Canadian agriculture industry by providing knowledge and education, and by supporting initiatives and forming partnerships that advance the business of agriculture.

Priorities	Actions
Young farmers and producers Help young farmers and producers develop in the industry.	• supporting young farmers to be successful through our Generation Ag programs
Industry knowledge and skills Increase industry knowledge and skills for a successful and profitable industry.	• hosting FCC Learning events • offering FCC Management Software • publishing and distributing the latest industry news
Agriculture and agri-food networks Strengthen and support agriculture and agri-food networks.	• supporting and partnering with industry associations
Agricultural safety Contribute to the safety of the industry.	• partnering to deliver Canadian Agricultural Safety Week • offering the FCC Ag Safety Fund
Pride in agriculture Promote agriculture as a vibrant, forward-looking industry, fostering excitement and building a positive image of Canadian agriculture.	• measuring optimism in the agriculture industry • honouring women in agriculture through the FCC Rosemary Davis Award • partnering with Agriculture in the Classroom

Canada is the sixth largest beef-exporting country in the world.


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Community

We foster strong and vibrant communities where our customers and employees live and work, with a focus on rural Canada.

Priorities	Actions
Hunger Raise food by organizing an annual food drive that focuses on reducing hunger in Canada.	• organizing the FCC Drive Away Hunger program to raise food and funds for Canadian food banks
Community enhancement Support the communities where our customers and employees live and work, with a focus on rural Canada.	• supporting rural Canadian capital projects through the FCC AgriSpirit Fund • celebrating minority official language communities through the FCC Expression Fund • supporting Regina-based charities and not-for-profit organizations with the FCC Regina Spirit Fund
Volunteerism Support employee volunteerism.	• encouraging volunteerism by supporting the organizations our employees serve through our employee donation match program, team volunteer program and our monthly volunteer draw

Customers

We focus on primary producers as well as suppliers and processors along the agricultural value chain. We provide our customers with flexible, competitively priced financing, equity, insurance, management software, information and learning.

Priorities	Actions
Customer experience Consistently provide an extraordinary customer experience.	• asking our customers to provide feedback at key touch points throughout the year • enhancing the electronic channels our customers use to do business with us
Customer support Demonstrate unwavering support and commitment to customers.	• providing support to customers that are affected by short-term crisis through the FCC AgCrisis Fund
Products Deliver products in response to customer needs and wants.	• working with customers to ensure our products meet the unique needs of their business

Employees

We foster a culture of accountability, partnership and diversity – and deliver a stellar employee experience.

Priorities	Actions
Corporate culture Sustain and grow our culture.	• measuring employee engagement • providing ongoing learning to deepen the organizational culture
Leadership Enhance leadership capabilities throughout the organization.	• developing leaders through specialized learning programs
Diversity and official languages Build a workforce that reflects the diversity and linguistic duality of our customers and the Canadian workforce as a whole.	• offering opportunities to learn about different cultures • providing an aboriginal summer student program • creating an aboriginal student fund • offering second language training for employees
Employee health and wellness Promote good health among employees through education and awareness.	• offering all employees a benefits program to support overall health and well-being
Learning and career development Provide learning opportunities for employees to develop their careers.	• creating individual development plans and reviewing progress annually • providing learning and growth opportunities for employees

Environment

We improve our environmental performance and support the industry with tools and knowledge to do the same.

Priorities	Actions
Environmental footprint Reduce the impact of our internal operations on the environment.	• measuring our greenhouse gas emissions, conducting waste audits and educating employees on environmental sustainability
Tools, knowledge and environmental products Develop and share tools, knowledge and environmental products.	• offering the Energy Loan and FCC Enviro-Loan to empower our customers to increase the sustainability of their operations
Environmental risk Identify and evaluate environmental risks.	• following the Canadian Environmental Assessment Act and conducting the necessary environmental assessments with our customers and prospective customers

Management's discussion and analysis

Industry overview

Global trends

FCC operates in the agriculture and finance industries. Both are shaped by market forces and global trends that affect those involved in agriculture and agri-food. We continue to monitor the impact of the global financial crisis, increasing demand for food and rising world prices, concern for the environment and alternative uses for agriculture products. Knowledge and opinion about these issues varies and instantly shared through social media and the Internet.

Several trends may directly affect Canadian agriculture. The world food diet is becoming more westernized. Demographics are changing. Populations are aging in western nations and on the rise in developing countries, a trend that will further alter the dynamics of food demand. There is good potential for Canadian products in emerging markets. To capitalize on these opportunities, new knowledge must be applied within traditional categories such as food, feed and fibre production. Other innovative ventures include carbon storage and biofuels.

Increased attention is focused on climate variability and the rising cost of energy. The demand for oil is expected to increase by as much as 35% in the next 20 years, which could significantly impact producers. Some are working now to make their operations more energy efficient. Others are producing electricity and selling any surplus to the energy grid.

No one can predict with certainty how external operating environment trends will impact Canadian agriculture and agri-food. FCC will continue to monitor trends, consider implications and proactively develop a strategic response.

Key economic conditions

Globally, economic recovery appears to be driven by business investments and exports. Despite relatively high unemployment in many countries, the Organization for Economic Co-operation and Development (OECD) believes that the recovery is self-sustaining. Canada is seen as a leader in growth among industrialized economies. Economic forecasts indicate Canada's annualized gross domestic product (GDP) growth in the 3% range. Still, many uncertainties about global economic recovery remain. Risks to a sustained recovery include impacts of the Japanese earthquake, persistent unrest in the Middle East and sovereign debt woes in Europe.

Canada's banking system continues to be held up as an example to the world in the time since the global economic crisis, a system that is demonstrating increased strength. Financial institutions around the world are focused on more conservative risk policies and reduced operating costs.

FCC is monitoring the potential impacts of inflation and interest rate increases that could result from economic growth.

The federal government has made the return to balanced budgets a clear priority. The three key elements of the government's overall plan are winding down stimulus spending, implementing targeted measures to restrain growth in direct program spending and undertaking reviews of government administrative functions and overhead costs to improve efficiency and effectiveness. The government has requested that all areas of government control costs, including Crowns.

Caution regarding forward-looking statements

This management's discussion and analysis (MD&A) includes forward-looking financial information based on certain assumptions that reflect management's planned course of action with the most probable set of economic conditions. By their nature, assumptions are subject to inherent risks and uncertainties. There is significant risk that actual results may vary and that the differences may be material. Some factors that could cause such differences include changes in general economic and market conditions, including, but not limited to, interest rates. To manage within this volatility, management routinely forecasts financial results as early as the first quarter.

Agriculture sector overview

Canadian agriculture and agribusiness owners are embracing new opportunities. A 2010 poll of FCC's Vision Panel revealed that optimism is at a four-year high. Three-quarters of those surveyed (76%) said that their farm or business will be better off in five years, compared to 2009 (70%). More Canadian producers reported being better off than they were five years ago and they have higher expectations for future growth than in the past. Intentions to expand and diversify are also at a four-year high. This is not to say that the industry does not have its challenges, which vary considerably from one sector to another.

Pork

The pork industry experienced some recovery in global demand in 2010. At the same time, the combined hog inventories of both Canada and the United States declined, a trend that is expected to continue into 2011. Reduced overall supply in both countries has contributed to stronger prices for hogs. Because the Canadian dollar has appreciated in value, Canadian hog producers have not experienced the same price gains as their counterparts in the United States.

Beef

The beef industry experienced some recovery in global demand in 2010. Cattle inventories and the number of producers in Canada continued to decline for a number of reasons, including shifts in age demographics within agriculture, steady increases in production costs, and increased competition for acreage. On a positive note, cattle prices have increased significantly and margins have improved, particularly for cow-calf producers.

Grains and oilseeds

Weather significantly impacted the grains and oilseeds sector in 2010. Southern Alberta, Saskatchewan and Manitoba experienced high levels of rainfall during the growing season, which reduced the total number of acres seeded and lowered crop quality. Conversely, parts of the Peace River region of Alberta, Ontario and Quebec experienced low levels of precipitation, resulting in lower crop yields and quality. Consequently, producers have not been able to capture the full benefits of higher world prices for grains and oilseeds. Prices remain unsteady as world growing conditions and inventories fluctuate.

As of March 13, 2011, total exports of Canadian grains were nearly 3% higher than a year ago, according to the Canadian Grains Commission.

Dairy

In 2009, Ontario, Quebec, New Brunswick, Nova Scotia and Prince Edward Island (also referred to as the P5 provinces) agreed to harmonize dairy quota. As part of the agreement, quota prices are being lowered to $25,000 per kilogram (kg); however, the time frame is different for each province. Quota prices in Ontario and Quebec (which account for the majority of quota in Canada) were lowered to $25,000 per kg toward the end of 2009, and quota prices in these two provinces were unchanged in 2010. British Columbia, Alberta, Saskatchewan and Manitoba have yet to implement similar policies. As a result, their quota prices are all above $25,000 per kg.

Poultry

Canadian chicken consumption increased by 1.4%, according to the Alberta Chicken Producers. Demand for chicken increased due to improvements in the Canadian economy, resulting in stronger overall demand for meat products.

Biofuels

Biofuels expansion continues to present opportunities for agribusiness in Canada. A national biodiesel mandate of 2% will begin in July 2011. According to the Canadian Renewable Fuels Association list of biodiesel facilities,14 of 22 facilities are operational while the remaining eight are in the proposal or construction phase. Expansion of ethanol production in Canada has slowed as federal and provincial mandates are being met. There is still some interest in Alberta and Eastern Canada (Ontario and Quebec) for possible expansion of the ethanol industry; however, there is no new construction.

Greenhouses

The Canadian greenhouse industry relies heavily on exports to the U.S. market. In 2010, the industry also faced challenges created by the high Canadian dollar and high energy prices, including competition from European exporters. However, Canadian greenhouses continue to benefit from customers' reliance on them to provide safe, fresh produce.

Agribusiness and agri-food

Processing is very important to Canadian agriculture. Consumer demand for higher priced value-added products is slowly improving as economies in Canada and worldwide improve. The agribusiness and agri-food sector faced challenges caused by the high Canadian dollar relative to the U.S. dollar, making exports from Canada less attractive than similar products from the United States. Conversely, the high Canadian dollar provided an opportunity for companies to increase efficiencies by purchasing new equipment from the United States.

Farmland values

Twice a year, FCC compiles and releases its Farmland Values Report, the only Canadian source that highlights changes in land values in each province and nationally.

The average value of Canadian farmland increased 2.1% between July and December 2010, continuing the steady increase reported during the last decade. Farmland values remained stable or increased in all provinces.

In the last three semi-annual reporting periods, farmland values increased by an average of 3.6% in spring 2010, 3.0% in fall 2010 and 2.1% in spring 2011. The highest average national increase was in 2008 at 7.7%. The last time the average value decreased was in 2000 (by 0.6%).

Prince Edward Island experienced the highest average increase at 3.2%, followed by Saskatchewan at 2.7%. New Brunswick and Ontario each saw 2.4% growth, followed by Alberta at 1.5% and Manitoba at 1.3%. Quebec (0.9%), Nova Scotia (0.6%) and British Columbia (0.4%) rounded out the list of provinces that experienced a rise in farmland values. Values were unchanged in Newfoundland and Labrador.

Debt-to-asset ratios

While debt levels for Canadian farms have been increasing, asset values have as well. As a result, the debt-to-asset ratio for Canadian agriculture has remained constant at 19% between 2005 and 2009. Over the previous five-year period, the net worth of Canadian farms increased by $53.7 billion. FCC Relationship Managers work with each customer to help them analyze and understand the impacts of debt on their business. FCC also monitors the financial health of the agriculture industry as a whole. To ensure the long-term success of the industry as well as that of individual business owners, it is important that debt is being used to increase profitability. While total farm liabilities in Canada increased by 33% from 2005 to 2009, the total liabilities to net income ratio increased by a more modest 11%.

Sector profitability

FCC holds 27.9% of Canadian farm debt as of December 31, 2010. In 2010, credit availability was an issue for the broader economy due to recession. However, the Canadian farm debt market grew by 6.1% in 2010, signalling the availability of credit for Canadian agriculture. Credit availability for larger agricultural equipment manufacturers has improved as three other financial institutions have entered or re-entered this market.

Total farm cash receipts for 2010 improved in the fourth quarter for many enterprises, especially grains and oilseeds.

Total farm market receipts declined by 1.5% to $43.8 billion; however, they remain 6.7% higher than the previous five-year average. Farm cash crop receipts (crop and livestock revenues plus program payments) dropped by 1.7% in 2010. Specifically, crop receipts declined 6.3% and livestock receipts increased 4.7%. Net cash income (includes program payments) also saw an increase of 4%. In 2009, total farm market receipts were up 26% and net cash income was up 25% above the five-year average from 2003-07.

Current and potential impacts for FCC

FCC has experienced significant growth every year for more than a decade. Revenues and administration expenses have grown in relation to FCC's product and service offerings, and overall loan portfolio. Over the same period, FCC has realized improvements in its efficiency while growing its loan portfolio. This is projected to continue to trend favourably over the next five years. FCC understands the importance of restraining spending and remaining financially viable through all economic cycles to support customers through good and challenging times. Maintaining strong customer satisfaction and employee engagement are important to the continued growth and success of the agriculture and agri-food industry.

FCC remains financially strong with $3,354.8 million in equity and loan loss reserves, low debt-to-equity and high-quality risk management practices. FCC's portfolio is diversified by enterprise and geography because it lends to all areas of agriculture across Canada, which reduces risk.

FCC is beginning the next fiscal year in a strong financial position and expects to meet its strategic targets in 2011-12. It will continue to closely monitor external and internal financial trends, assess implications and create proactive strategies to address them. Risk levels will be diligently monitored to ensure they continue to be within acceptable tolerances.

FCC's commitment to Canadian agriculture is unwavering. It will continue to monitor and respond to economic conditions as needed in order to achieve the objectives it has set out to maintain financial strength.

Strategic overview

Vision and strategy

As Canada's leading agriculture lender, FCC is advancing the business of agriculture by providing financing, insurance, software, learning programs and other business services to producers, agribusinesses and agri-food operations. FCC is strong and stable – committed to serving the industry through all cycles. Our employees are passionate about agriculture and committed to the success of customers and the industry. They are guided by FCC's vision:

The full agriculture value chain believes FCC is advancing the business of agriculture by providing financial products, tools and knowledge tailored to producers and agribusiness operators. Our customers are advocates of FCC and can't imagine doing business without us. We are a strong corporate citizen and an employer of choice everywhere we operate. Our focus on continuous improvement makes it easy for customers and employees to do business. We are financially viable and invest significantly in the agriculture and agri-food industry.

FCC corporate scorecard

FCC's strategic direction is aligned with government priorities. Both the 2010 Minister's Statement of Priorities and the Agriculture and Agri-Food Canada Growing Forward agricultural policy framework were reviewed as inputs.

FCC uses a corporate scorecard to monitor and measure progress against its corporate strategy. To achieve the vision and deliver on the mission, FCC has developed objectives and strategies that are categorized into five strategic themes:

- Commitment to agriculture
- Customer experience
- Efficiency and execution
- Culture and employee experience
- Financial strength

2010-11 Strategic themes and results

The 2010-11 corporate scorecard summarizes the corporation's performance against objectives. The strategic objectives and targets are based on the corporate strategy reported in the 2010-15 Corporate Plan Summary. FCC's results demonstrate its commitment to producers, agribusiness operators and the industry.

Theme: Commitment to agriculture

FCC has a reputation for offering outstanding financial products, knowledge and services tailored to agriculture, and for being a strong corporate citizen.

Critical outcome

In 2020, 85% of customers and 25% of stakeholders consider FCC the preferred choice for financial products, knowledge and services tailored to agriculture, and view FCC as a strong corporate citizen.

Summary of 2010-11 results

FCC met or exceeded its 2010-11 targets under the Commitment to Agriculture theme. The corporation is on track to achieve its long-term strategy. FCC launched Go Ag!, a program that supports young farmers at every stage. FCC offered learning events and publications free of charge to producers across Canada.

Corporate measures	2009-10 Target	2009-10 Results	2010-11 Target	2010-11 Results
Corporate social responsibility scorecard	Report against scorecard	**Achieved**	Report against scorecard	**On track:** FCC has enhanced its performance measurement for corporate social responsibility in each of its five focus areas. Detailed information will be provided in a new Corporate Social Responsibility Report that will be released in Q3, 2011-12.
Corporate reputation index	+50 or more	Replaced: FCC has changed its reputation measure from a bi-annual index to more frequent surveys of customers and stakeholders.	Develop new approach and measurement	**Exceeded:** A national study benchmarking FCC's reputation against major national brands was completed. FCC achieved a significant increase among producers in both awareness and positive reputation. FCC has moved to 5th place from 22nd place in 2005.
Media favourability index	10 points above global average for financial institutions	Not achieved: The global favourability rating for financial institutions was 53. The FCC favourability score was 61.	7 points above global average for financial institutions[1]	**Exceeded:** Media favourability for 2010-11 was 64. This is nine points above the favourability for global financial institutions (also up this year by two points to 55).

Notes:

1) Media favourability target was changed from 10 to 7 in Q3 2009-10. The target was set too high given the economic recession.

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Invest in initiatives that advance the business of agriculture	Invest in initiatives that promote the business of agriculture and agri-food in Canada and contribute to the success of this industry	**Achieved:** In 2010-11, FCC continued to promote and advance the business of agriculture and agri-food in Canada through learning events, publication and sponsorship of industry trade shows and associations. Examples include: AgriSuccess (75,250 subscribers); FCC Express e-zine (32,609 subscribers); 288 learning events (29,574 attendees); 26 trade shows.
Assist young farmers and agribusiness operators	Develop additional programs for young farmers and agribusiness operators	**Achieved:** In 2010-11, Go Ag! was offered to ag colleges across the country. This program provides up to $2,000 in funding to plan, promote and host an educational event. In 2010-11, eight colleges signed on and a total of 760 students attended these events.
Be a leader in providing knowledge that enhances producer and agribusiness success	Create and implement long-term knowledge strategy that includes aggregating knowledge, innovations and practical ideas for producers and agribusiness operators	**Achieved:** The working committee used an assessment tool to prioritize ideas for enhancing employee knowledge. The Community of Practice model was replaced with online networks that connect employees with knowledge on various topics. The focus is on further leveraging the knowledge we create with customers and the industry.
	Offer FCC Learning programs, events and publications to the agriculture industry	**Achieved:** A series of pilot programs (video, webinar, podcasting and online e-courses) are being offered to producers to determine what they consider to be of value to their business. Example: Management Forum speaker interviews videos were produced and released on the FCC website and 782 views occurred in one month.

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Ensure that FCC acts in the best interest of all stakeholders	Develop integrated reputation management strategy, including media relations, issues management, web community involvement and internal monitoring	**On track:** A new governance structure and processes were created to check for reputation risk and manage external issues or events. The national media relations strategy was fully implemented and contributed to positive media favourability results as noted on the prior page.
Operate as a good corporate citizen	Community enhancement a) Invest $1 million in rural capital projects through the FCC AgriSpirit Fund b) Support minority official language communities c) Support the community where over half of our employees live and work	**Achieved:** a) The FCC AgriSpirit Fund awarded $1 million to 104 rural capital projects that will enhance rural communities. b) The FCC Expression Fund provided $50,000 to projects that contribute to the vitality of official language minority communities and help residents express the cultural and linguistic diversity of their area. c) Through the FCC Regina Spirit Fund, FCC invested $100,000 to support 18 community enhancement projects carried out by Regina charitable and non-profit organizations.
	Benchmark FCC's environmental footprint	**On track:** An external organization was contracted to measure the composition of waste at corporate office. An engineering consultant was engaged to establish FCC's greenhouse gas emissions baseline for 2011-12.

Theme: Customer experience

Customers receive FCC's unique customer experience and are passionate advocates of FCC.

Critical outcome

In 2020, FCC delivers an extraordinary customer experience index to customers, prospects and suppliers. FCC's customer experience index score is at 65 or higher.

Summary of 2010-11 results

FCC exceeded its customer experience target; more than one in six customers give FCC perfect scores. We are very proud of the confidence and loyalty shown by our customers.

Corporate measures	2009-10 Target	2009-10 Results	2010-11 Target	2010-11 Results
Customer experience index	57.94%	**Ahead:** at 60.81%.	58.44%	**Exceeded:** at 61.64%.
Total lending to young farmers	$1.43 billion	**Ahead:** at $1.8 billion; 2009-10 was a record year for disbursements to young producers.	$1.71 billion	**Behind:** at $1.63 billion. Net disbursements as of March 31, 2011, represent 95% of target.

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Known in Canada as a best-practice organization that consistently provides an extraordinary customer experience	Conduct a gap analysis based on the Customer Experience Index to define customer needs and minimize inconsistencies in customer service	**On track:** FCC conducted a qualitative study on customer experience and channels to explore what customers think matters most and how channels fit in.
	Define agriculture and finance knowledge expectations of customer-facing staff and integrate with the sales process to ensure a stellar customer experience	**On track:** FCC defined knowledge expectations of customer-facing staff over the course of their FCC careers. In addition, "knowledge as a sales tool" presentations were provided across Canada. Research was also conducted on employees' knowledge habits and behaviours. Next steps will include change management, awareness, knowledge gap identification and capture.
Contribute to the success of the agriculture and agri-food industry by serving the full value chain	Conduct awareness campaign with agribusiness and agri-food markets	**Achieved:** AgValue advertising campaign was executed and testimonial ads placed in key sector publications across the country.
	Equip employees with skills, products and services tailored to the unique needs of agribusiness and agri-food operators	**Achieved:** A product scan was completed. Product Managers assisted employees with their knowledge of FCC offerings. AgValue Relationship Managers received "on-demand" packages customized to individual customer needs.
Make it easy for customers to do business with FCC	Enhance customer channel choice by offering more options for doing business with FCC through the Customer Service Centres	**Achieved:** The Customer Service Centre (CSC) Real Property Loan pilot was successfully completed. Over 100 loans were sent to the CSC. Business and technical requirements for customer relationship management were defined and implemented.
	Create a web and e-channel strategy to enhance ability of customers and partners to do business electronically with FCC	**Achieved:** A governance committee for the web and e-channel was established to implement these completed strategies. Critical interdependencies were identified across planned web, e-business, intranet and future mobile applications.

Theme: Efficiency and execution

FCC's agility in decision-making processes and technical and operational infrastructure makes it easy for customers and employees to do business.

Critical outcome

In 2020, FCC is a highly efficient, effective and agile organization in the eyes of customers, business partners and employees.

Summary of 2010-11 results

FCC exceeded targets on the "easy to do business" indicator, on both customer and employee. The project management maturity target also was exceeded. The implementation of the business and technology transformation program is well underway. FCC continues to identify ways to maximize corporate performance.

Corporate measures	2009-10 Target	2009-10 Results	2010-11 Target	2010-11 Results
Customer experience index (easy to do business indicator)[1]	52.57%	Ahead: at 58.08%. This means that 6 out of 10 respondents give FCC perfect scores on this measure.	53.07%	Exceeded: at 59.85%.
Employee engagement (easy to do business indicators)[2]	Greater than or equal to the average of the top 50 employers	Behind: at 77.8%. The average of the top 50 employers is 78.8%.	Greater than or equal to the average of the top 50 employers	Exceeded: at 78.8%. The "easy to do business" employee score is comprised of the average of the employee engagement scores for five selected drivers. The top 50 employers' score was 77.6%.
Project management maturity[3]	Project management maturity score of 37%	Ahead: at 43%.	Project management maturity score of 40%	Exceeded: at 51%.

Notes:

1) Easy to do business indicator: the percentage of customers responding 5 on a scale of 1 to 5 (top box score) to the question: Is it easy to do business at FCC?

2) Easy to do business indicators include: co-workers, physical work environment; resources; work processes; work tasks

3) Maturity is based on the OPM3 Product Suite project management score

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Optimize how FCC conducts business	Complete implementation of the business and technology transformation program (BK)	**Achieved** (with adjustments): As of March 31, 2011, after 51 months of operation, the BK Program was 88% complete. Although progress has been good, adjustments were made to implementation plans. The multiple loan conversions are now scheduled to occur by October 2011. This is a one-month delay from the original estimate.
	Identify corporate functions, services and processes for potential alternate methods of service delivery and/or partnerships	**On track:** IT issued a Request for Proposal for increased network infrastructure outsourcing. A preferred vendor was chosen, and a contract is expected to be signed by July 2011. Other examples include: redesign of audit process, research for a new method of recruiting potential employee candidates to FCC, and new distribution channels for software sales with agricultural retailers.
	Optimize how FCC does business by reviewing optimization throughout the corporation	**Achieved:** An external optimization study was conducted, which found that FCC operates in a highly efficient manner. Ideas for further exploration were provided. This year, executive management commissioned a project to formally assess these opportunities. A project plan and methodology were developed and several opportunities were assessed. The business process redesign project for Alliances completed processes and several policies. A new Business Interaction Model was completed that redefines how IT interacts with other FCC divisions. In Q2, FCC completed the first phase of VAL Replacement. VAL is a system that supports FCC's valuations policy, which outlines the standards, criteria and processes required for valuing assets being secured with loans. The second phase will be completed in 2011-12.

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Optimize how FCC conducts business, continued	Enhance project management maturity, including benefits realization	Exceeded: at 51%. Extensive work in the Corporate Project Management Office (PMO) as well as in IT included: a communication plan implemented, with messages regarding the importance of resource capacity management, its benefits and the consulting support available through Corporate PMO. The Corporate PMO began consulting to various areas to help them understand and implement resource capacity management within their teams. As of October 1, 2010, applicable projects must follow the benefits realization process.
	Develop a comprehensive corporate information management plan, including content management	On track: Addressing this opportunity will require a multi-year, multi-project program. Research into the Agriculture and Agri-Food Canada information management program and AgriDocs system has revealed an opportunity to leverage their work at FCC.
Ensure business continuity	Enhance the plans for addressing consequences of pandemic from H1N1 or other unforeseen business disruptions	On track: The threat of a pandemic was not evident in 2010-11. Monitoring activity is ongoing. The FCC Business Continuity Plan was updated with no significant changes to the pandemic section.
Implement a web and e-channel strategy	Implement a web and e-channel strategy to enhance web presence	On track: A web strategy was approved and a governance committee established along with operating principles. Business requirements gathering is underway.
	Develop plan to enhance the delivery of products and services through e-business	On track: Strategy is complete; research conducted; and restructuring occurred.

Theme: Culture and employee experience

FCC is an employer of choice with a high-performance culture and strong employee engagement, which bring out the best in people at all levels.

Critical outcome

In 2020, FCC is an employer of choice, providing inspirational leadership and career growth for people with a passion for excellence. FCC will attain an employee engagement score greater than or equal to the average of the top 50 Canadian employers.

Summary of 2010-11 results

FCC's strong emphasis on its internal culture has led to high employee engagement and a positive employee experience. Several initiatives were pursued in 2010-11, including a health and well-being strategy and a new leadership program. A new learning management system was launched that allows employees to track training and development.

Corporate measures	2009-10 Target	2009-10 Results	2010-11 Target	2010-11 Results
Employee engagement index	Greater than or equal to the average of the top 50 employers	**Ahead:** at 86%. The average of the top 50 employers is 80%.	Greater than or equal to the average of the top 50 employers	**Exceeded:** at 82%. The average of the top 50 employers was 78%.
Employee engagement – (employee experience Indicators)[1]	Greater than or equal to the average of the top 50 employers	**Ahead:** at 78.2%. The average of the top 50 employers is 75.4%.	Greater than or equal to the average of the top 50 employers	**Exceeded:** at 75.4%. The Employee Experience Index is comprised of the average of five selected drivers. The top 50 employers' score was 74.2%.
Employee engagement – (leadership indicators)[2]	Greater than or equal to the average of the top 50 employers	**Ahead:** at 79%. The average of the top 50 employers is 73.2%.	Greater than or equal to the average of the top 50 employers	**Exceeded:** at 73.2%. The Leadership Index score is comprised of the average of five selected drivers from the annual employee engagement survey. The top 50 employers' score was 71.4%

Notes:

1) Employee experience indicators – scores on the following drivers are averaged to calculate the score: career opportunities; learning and development; intrinsic motivation; managing performance; work/life balance

2) Leadership indicators – scores on the following drivers are averaged to calculate the score: senior leadership; manager; recognition; career opportunities; managing performance

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Sustain and grow FCC employee experience	Enhance employee competencies with respect to feedback and coaching	**Achieved:** In 2010-11, 936 employees completed personal leadership training called Leading from Within.
	Implement employee health and well-being strategy	**Achieved:** An employee wellness account was implemented on January 1, 2011. Contracts with the new Employee and Family Assistance Program (EFAP) provider were negotiated. Learning modules for FCC's Defined Contribution and Defined Benefit Pension Plans were developed.
	Sustain and grow FCC employee experience by developing and implementing corporate response to employee engagement survey	**Achieved:** A strategy based on the employee engagement survey results and action planning across FCC was approved in 2010. The strategy focuses on improving the people leadership skills of leaders across FCC. FCC Census Day for diversity was held on October 19, and received a response rate of 80%. Events promoting diversity awareness were held at corporate office. HR took part in a six-week placement program offered by the Regina Open Door Society. Cultural awareness training was delivered to managers taking part in the Aboriginal Summer Student Program. A partnership with the Regina Aboriginal Professionals Association was established to implement plans for celebrating National Aboriginal Day on June 21, 2011.

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Enhance leadership capabilities	Implement new leadership development program	**Achieved:** A new leadership development program was achieved. The Five Leadership Principles Program was rolled out to 120 leaders.
	Ensure effective change management practices are employed when rolling out initiatives	**Achieved:** Change management and communication consulting to divisions occurred throughout the year. A new tool that contains key messages regarding change initiatives was rolled out to assist leaders with communication change.
Provide learning and knowledge that offers employees ongoing growth	Implement next phase of FCC learning strategy	**Achieved:** The Learning Management System (LMS), a new system that allows all employees to view, access, register and track all FCC learning opportunities, was launched. Divisional workforce plans were completed and the 2010-11 corporate workforce plan was approved.

Theme: Financial strength

FCC is financially viable and self-sustaining in the long term, while investing significantly in the agriculture industry and utilizing valuable partnerships.

Critical outcome

In 2020, FCC has a diversified agriculture, agribusiness and agri-food portfolio, with a strong balance sheet and an ROE of 12%.

Summary of 2010-11 results

In 2010-11, FCC met or exceeded all financial targets with the exception of Venture Capital Invested. Initiatives were pursued to protect the corporation with sound enterprise governance, risk and compliance practices. An updated enterprise risk management (ERM) framework further integrated ERM with strategy, processes and policies. An Enterprise Security program to safeguard FCC information assets, physical assets and employees was developed. The IFRS conversion plan was completed and FCC is prepared to report under the new standards.

Corporate measures	2009-10 Target	2009-10 Results	2010-11 Target	2010-11 Results
Net income[1]	$226.8 million	**Ahead:** at $280.2 million.	$318.4 million	Exceeded: at $459.2 million. Primarily due to a significant favourable variance in the provision for credit losses, mainly due to updates and adjustments to the allowance model and lower risk in the portfolio. Also contributing are favourable variances in net interest margins and administration expenses.
ROE[1]	11.2%	**Ahead:** at 14.0%.	14.5%	Exceeded: at 19.5%. Above the year-end target due to higher than target net income.
Efficiency ratio[2]	47.2%	**Ahead:** at 41.2%.	41.6%	Exceeded: at 35.9%. Primarily due to the favourable variance in net interest income, combined with lower than target administration expenses.
Debt-to-equity ratio[1,3]	7.5:1	Behind: at 8.4:1.	8.1:1	**Achieved:** at 7.4:1. Due to a higher than target equity balance compounded by a reduced requirement to borrow funds.

Notes:

1) Net income, total liabilities and total equity have been adjusted to reflect the current presentation of the non-controlling interest in a variable interest entity
2) The efficiency ratio was restated to include Investment in Agriculture spending
3) Loans receivable, total assets and total liabilities for 2010 have been restated as a result of a prior period adjustment

Corporate measures	2009-10 Target	2009-10 Results	2010-11 Target	2010-11 Results
Portfolio growth[3,4]	Primary production financing 5.24%	**Ahead:** at 13.69%.	7.7%	**Achieved:** at 7.9%. Primarily due to lower than target prepayments, partly offset by higher than target principal payments.
	Agribusiness and agri-food financing 10.26%	**Ahead:** at 23.18%.		
Venture capital invested	$67.3 million	**Ahead:** at $69.0 million.	$92.4 million	Behind/not achieved: at $66.1 million. Total capital outstanding is lower than target primarily due to timing of finding suitable investment opportunities under the Avrio Fund.

Notes:

3) Loans receivable, total assets and total liabilities for 2010 have been restated as a result of a prior period adjustment

4) The portfolio growth measure was updated and is now based on total portfolio growth and was moved to financial strength in 2010-11

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Implement a financial management framework, integrating portfolio growth, risk, margins and returns	Continue to implement an economic capital management framework	**Achieved:** A governance and accountability framework was developed. A pilot report on buydowns was presented to the Asset and Liabilities Committee. To measure the market risk component of the economic capital management framework, an independent model validation of Value at Risk calculation results was created. Initial research commenced on a holistic capital management framework. The research phase of the project will run until June 2011 and framework development will continue until December 2011.
	Evaluate and update credit risk culture and practices in relation to evolving market conditions	**Achieved:** The lending culture statement was reinforced through ongoing communication. Results of an internal survey indicated that the majority of employees felt they received consistent messaging on risk management, pricing and growth. The survey also indicated that FCC continues to balance growth, risk and profit with a desired increase in quality.
Protect the corporation with sound enterprise governance, risk and compliance (GRC) practices	Continue implementation of enhanced internal controls	**On track:** A holistic analysis of the control environment surrounding BK-related processes is complete and observations are being incorporated in corporate processes.
	Update enterprise risk management framework	**On track:** The Enterprise Risk Management (ERM) framework is on track to further integrate ERM with corporate processes and policies, and enhance risk culture. Corporate risk appetite was researched.

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
	Enhance enterprise security measures	**On track:** An Enterprise Security program was created to safeguard FCC information assets, physical assets and employees in a co-ordinated, risk-based manner across the organization. The program consists of four project streams (Governance and Schedule Policy Creation, Information Asset Classification, Facilities and Personnel Security, and Program Assurance). Enterprise level policies were prepared for all four project streams.
	Implement policy and process changes to comply with new International Financial Reporting Standards	**Ahead:** The opening balance sheet was prepared using International Financial Reporting Standards (IFRS). Changes to accounting policies required for transition as well as key management disclosure requirements were presented to the Board's Audit Committee. A new requirement for quarterly reporting instituted by Treasury Board Secretariat resulted in the IFRS timelines being accelerated by nine months. All required deliverables to implement IFRS were completed. All processes required to complete the first set of IFRS-compliant financial statements were successfully tested. These processes will now transition into business as usual activities and will be monitored accordingly.

Financial performance review

Financial performance versus plan

Each year, as part of its strategic planning process, FCC develops a comprehensive corporate plan, which includes targets for various financial measures for the coming fiscal year. The chart below provides a comparison of the actual outcomes against key plan targets for 2010-11.

Profitable growth and effective financial management

(millions of dollars unless otherwise noted)	2011 Actual	2011 Plan
Portfolio growth		
Loans receivable	21,334.5	21,057.1
Loans receivable growth (%)	7.9	7.7
Net disbursements	6,153.2	6,089.9
FCC Ventures		
Investments – total capital outstanding	66.1	92.4
Investments – carrying value	58.0	83.3
FCC Management Software		
Net sales revenue	1.8	1.7
FCC Insurance		
Insurance premium income	18.1	17.0
Net insurance income	11.1	8.5
Portfolio profitability		
Net interest income	738.5	697.4
Net interest margin (%)	3.44	3.35
Credit quality		
Arrears	41.7	72.9
Impaired loans	241.4	294.8
Provision for credit losses	27.9	95.4
Allowance for credit losses	586.2	715.9
Efficiency		
Administration expense	270.8	294.2
Efficiency ratio (%)	35.9	41.6
Capital management		
Debt to equity ($ of debt per $ of equity)	7.4	8.1
Shareholder return		
Net income	459.2	318.4
Return on equity (%)	19.5	14.5

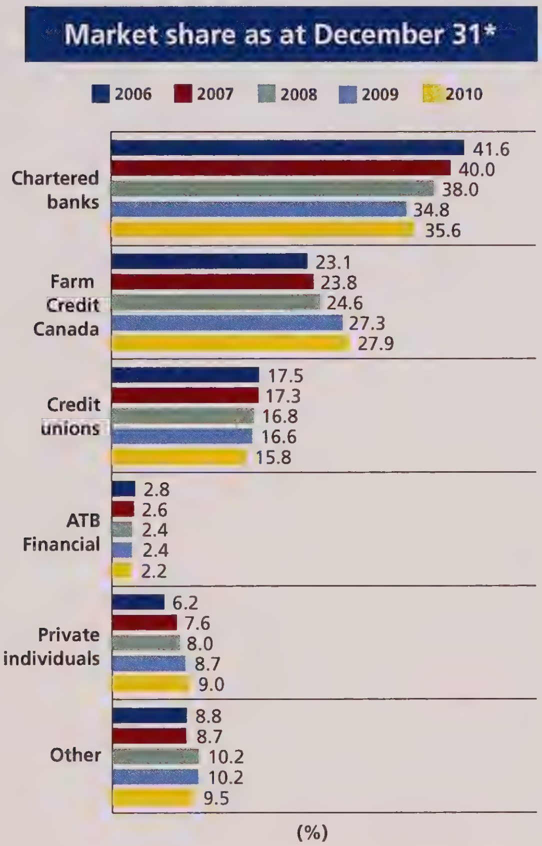
Financial performance versus prior year and outlook

The remainder of the MD&A provides a review of year-over-year performance, as well as FCC's performance expectations for 2011-12.

Portfolio growth

Market share

According to Statistics Canada, farm debt outstanding increased by 6.1% to $66.4 billion in 2010. FCC increased its market share by 0.6% to 27.9% in 2010. FCC's proportion of Canada's outstanding farm debt of $18.5 billion remains second to the chartered banks at $23.6 billion.



*Historical results are also updated annually by Statistics Canada.

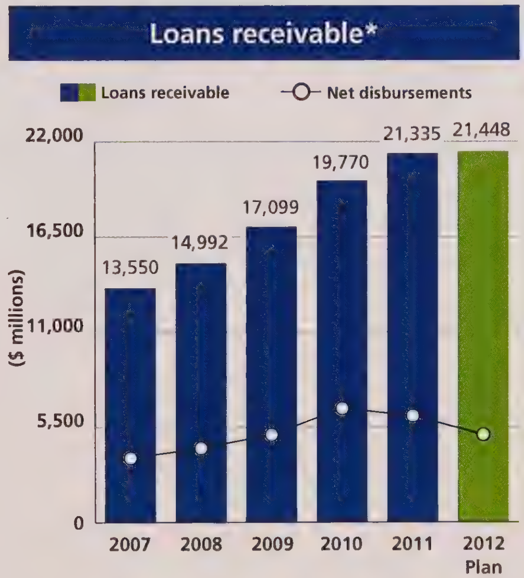
Lending activity

FCC lending activity is conducted through its lending business lines: primary production financing, agribusiness and agri-food financing, and FCC Alliances (point-of-sale financing) (refer to Lines of Business on page 52).

In 2010-11, FCC experienced its 18th consecutive year of growth. Loans receivable increased $1,565 million from $19,770 million in 2009-10 to $21,335 million in 2010-11. The rate of loan portfolio growth of 7.9% has slowed due to lower disbursement levels. Net disbursements decreased compared to the prior year by $433 million or 6.6% to $6,153 million. Renewal rates have increased by 0.4% to 97.7%, contributing to loan portfolio growth. This is offset by increased prepayments in the current year with the prepayment rate increasing by 0.3% to 5.4%.

The primary driver behind the growth in loans receivable was disbursements to primary producers in all major enterprises. Primary production and point-of-sale financing constitute 83.4% of FCC's net disbursements.

Growth is expected to continue to slow in 2011-12 with loans receivable increasing by $113 million, a growth rate of 0.5%. This decreased level of growth can be attributed to a projected reduction in net disbursements of $766 million to $5,387 million for 2011-12. The renewal rate is expected to decrease slightly to 96.0% in 2011-12 and prepayments are expected to increase to 6.5% in 2011-12.



*Loans receivable for 2010 have been restated as a result of a prior period adjustment.

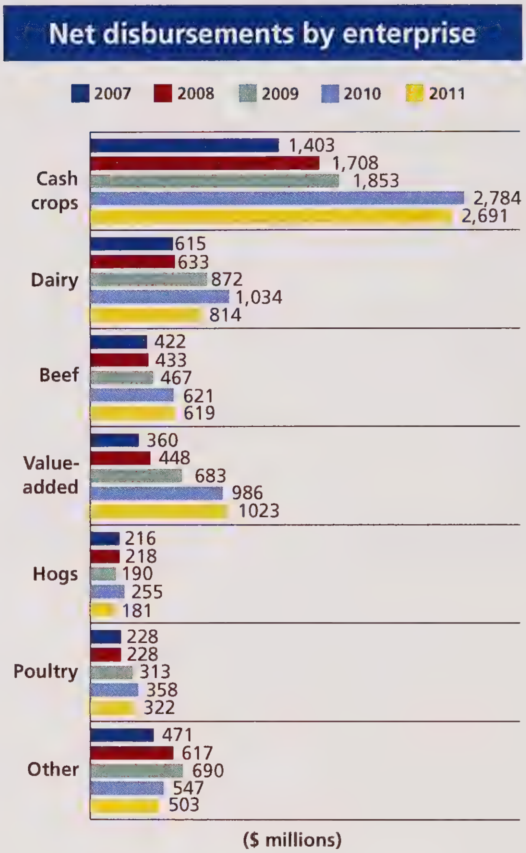
Portfolio growth by enterprise

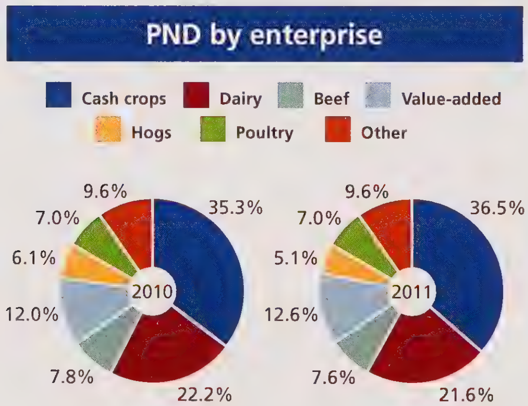
FCC lends to all agriculture enterprises, which diversifies the lending portfolio and reduces enterprise-specific risks. These practices align to the strategic themes addressing FCC's commitment to agriculture and financial strength by effectively managing risk to ensure FCC's long-term viability.

In 2010-11, net disbursements decreased compared to the previous year in all major enterprises except the value-added enterprise, which saw an increase of 3.8%. The value-added enterprise includes processing and activities that support primary enterprises. The most significant decreases in net disbursements were in the hog and dairy sectors, which experienced declines of 29.0% and 21.3% respectively.

While net disbursements decreased in most major enterprises relative to 2009-10, this was offset by a decline in other portfolio activity including principal payments and net repayments, resulting in PND growth in all sectors with the exception of hogs. The hog sector decreased from 6.1% to 5.1% of FCC's total PND. PND grew year-over-year in the dairy and beef sectors; however, their respective shares of total PND decreased from 22.2% to 21.6% and 7.8% to 7.6%.

Cash crops continue to represent the largest portion of FCC's PND and net disbursements in 2010-11, representing 36.5% of total PND.





Portfolio growth by geographic area

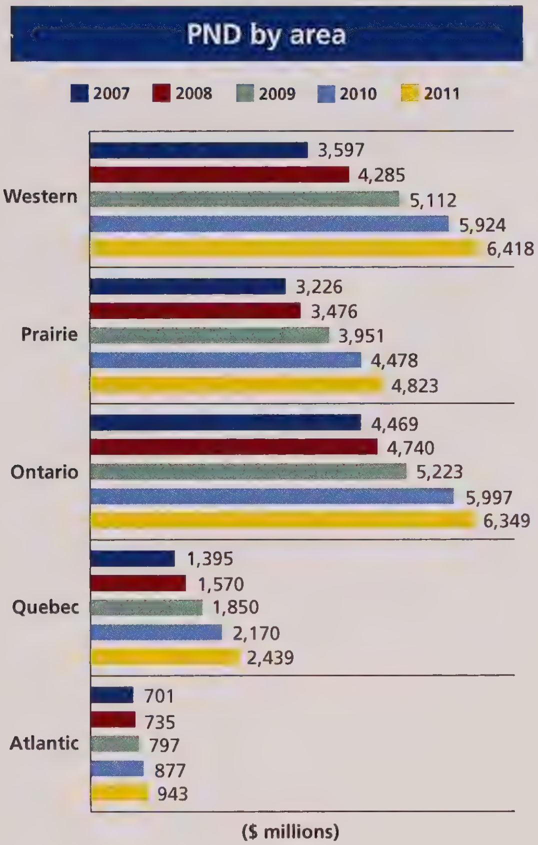
By lending to all areas of agriculture across Canada, FCC spreads risk geographically while promoting agriculture as a strong and vibrant industry. From coast to coast, FCC has over 100 offices to serve its customers.

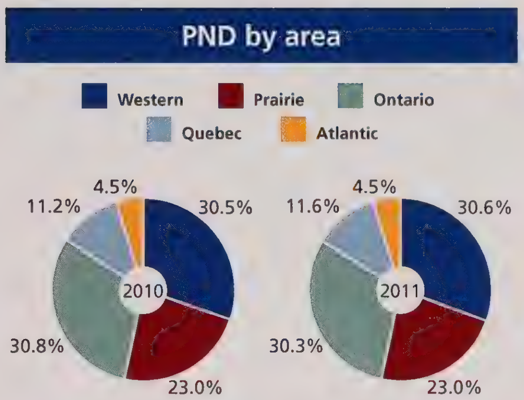
In 2010-11, FCC experienced PND growth across all areas of Canada. The largest PND growth areas continue to be Quebec and Western, which experienced 12.4% and 8.3% growth respectively.

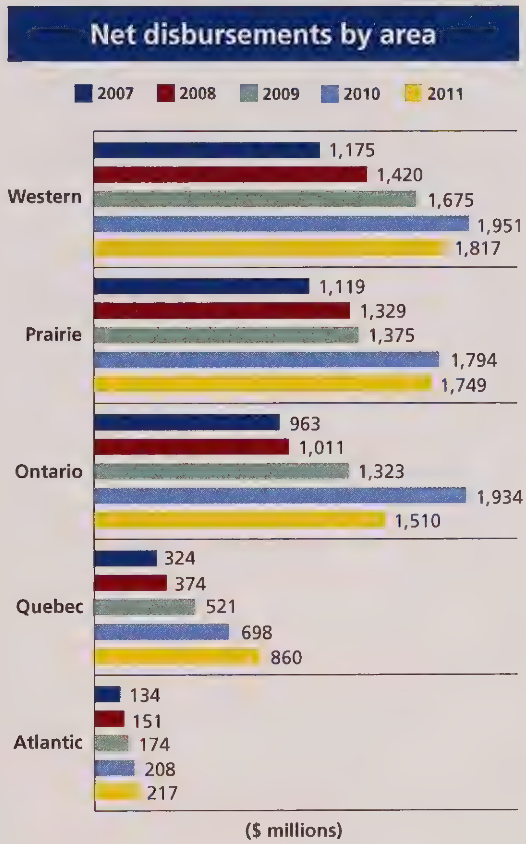
In 2010-11, net disbursements decreased in the Western, Prairie and Ontario areas and increased in the Quebec and Atlantic areas. The largest decrease was seen in Ontario where net disbursements decreased 21.9%.

Western and Prairie comprised over half of PND and net disbursements. Their overall proportion of net disbursements increased by 1.1% to 58.0% from 2009-10.

Western was the largest individual contributor to PND in 2010-11 with its respective share increasing by 0.1%. The respective share of Ontario decreased by 0.5%.







Lines of business

FCC offers a combination of financing, insurance, management software, information and learning products and services to over 100,000 customers across Canada through its various business lines:

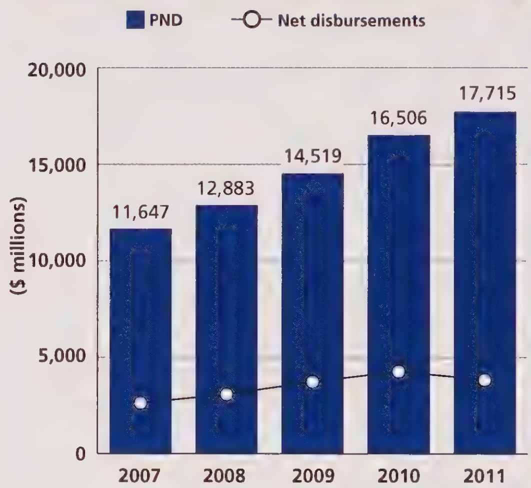
- primary production financing
- agribusiness and agri-food financing
- FCC Alliances
- FCC Ventures
- FCC Insurance
- FCC Learning
- FCC Management Software

Each business line has specific products tailored to address the needs of Canadian agriculture. Lending products include standard loans with variable or fixed interest rates and many term, amortization and payment frequency options. Lending products are also available that include features such as principal payment and/or interest deferral, secured and unsecured revolving loans that can be paid down and re-advanced as needed, interest rates tied to customer credit quality and customized payment schedules linked to typical sector-based cash flow patterns. Lending is available for real and personal property purposes, through both loans and leases.

Primary production financing provides loans to primary producers and is FCC's largest business line. Customers with loans under this business line produce raw commodities in various enterprises such as crops, beef, hogs, poultry, sheep and dairy, as well as fruits, vegetables and alternative livestock. This line of business also includes, but is not limited to, lending to vineyards, greenhouses, forestry and aquaculture.

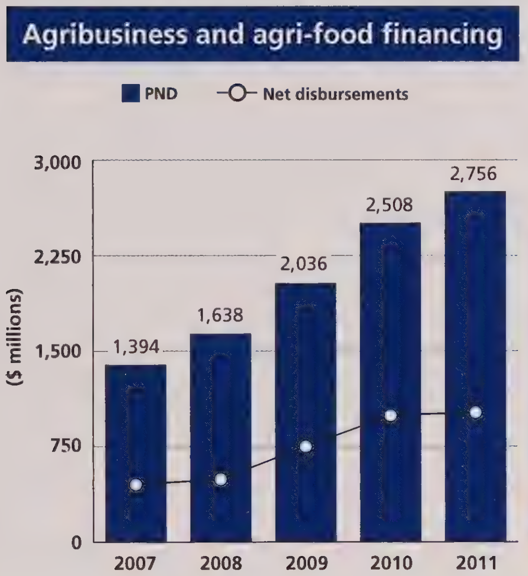
Primary production comprised 84.5% of FCC's total PND in 2010-11. PND increased $1,209 million, resulting in a portfolio of $17,715 million. The rate of growth in PND decreased to 7.3%, from 13.7% the previous fiscal year. The primary driver was the decline in net disbursements of 10.1% in 2010-11 to $3,828 million.

Primary production financing



Agribusiness and agri-food financing provides support to primary producers. These customers are typically suppliers or processors who are selling to, buying from or otherwise serving primary agriculture producers. These customers include, but are not limited to, equipment manufacturers, dealers, input providers, wholesalers, marketing firms and processors.

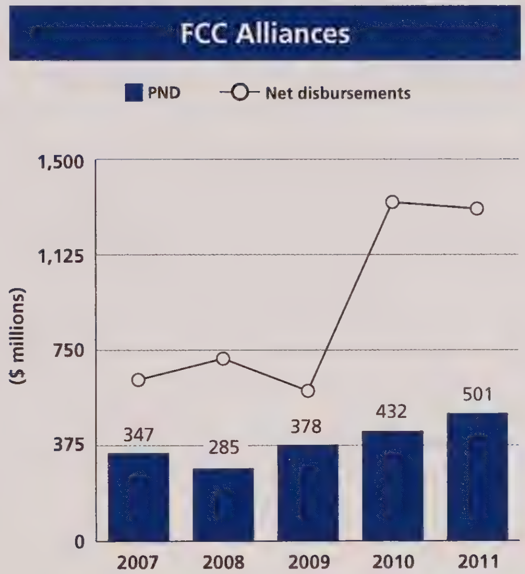
Agribusiness and agri-food showed growth in PND of 9.9% to $2,756 million. Net disbursements increased 2.5% to $1,019 million.



FCC's strategy is to optimize the primary production financing and agribusiness and agri-food financing portfolios. This strategy balances growth with market opportunity, volume and margin.

FCC Alliances is the largest contributor to FCC's financing for equipment, crop inputs and livestock point-of-sale business line. It lends to agriculture customers through a network of external agriculture or financial organizations, some of which include equipment dealers, crop input retailers, livestock operators and manufacturing partners. Through this network, FCC is able to provide efficient and effective products and services to its customers.

FCC Alliances showed growth in PND of 16.0% to $501 million. In 2010-11, net disbursements decreased by 2.0% to $1,306 million. Disbursements during the year exceed PND at the end of the year due to the short-term nature of the lending products in this business line.



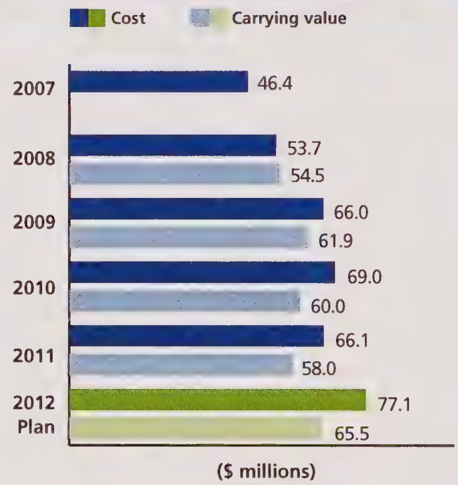
FCC Ventures is the corporation's venture capital business line, focused on addressing the need for alternative financing in the agriculture industry.

The venture capital portfolio includes investments made directly by FCC (FCC Fund), as well as investments made through the Avrio Ventures Limited Partnership fund (Avrio Fund). In 2006, FCC committed $50 million to this fund, which also attracted an additional $25 million from other limited partners interested in investing in the agriculture industry. The investment objectives of the fund are focused on commercialization-to-growth stage businesses operating in the industrial bio-products, food technology and nutraceutical ingredient sectors.

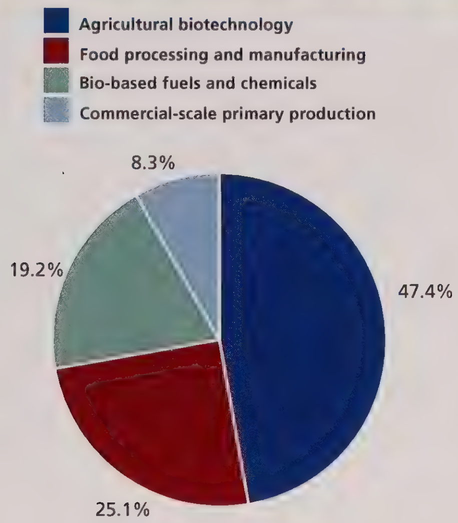
In 2010-11, FCC earned $4.4 million in income, primarily related to an equity pickup from an investee company over which the corporation holds significant influence and interest earned on debt investments. The carrying value of the total venture capital portfolio of $58.0 million includes $18.7 million held directly by FCC and $39.3 million in investments held in the Avrio Fund. Throughout 2010-11, $12.1 million in new investments was funded and the carrying value of the investment over which the corporation has significant influence increased by $2.8 million as a result of the equity pickup. These increases were offset by $13.3 million in payments and divestitures, $2.2 million in realized losses on divestitures and a $1.2-million decrease in fair value. Co-investment partners contributed an additional $1.1 million to individual investments made during the year. Further detail of the carrying value investment amounts can be found in Note 9 and Note 20 of the Notes to the Consolidated Financial Statements.

Despite the ongoing maturity and divestiture of existing investments, the venture capital portfolio is expected to continue to grow as FCC Ventures pursues new opportunities to expand the type and level of investment. On March 17, 2011, Avrio Ventures advised the limited partners that it has fulfilled the investment criteria for the Avrio Fund with its intention to launch a second fund. The corporation has approved an investment in this new fund subject to negotiation of suitable terms and conditions at closing.

Investments outstanding

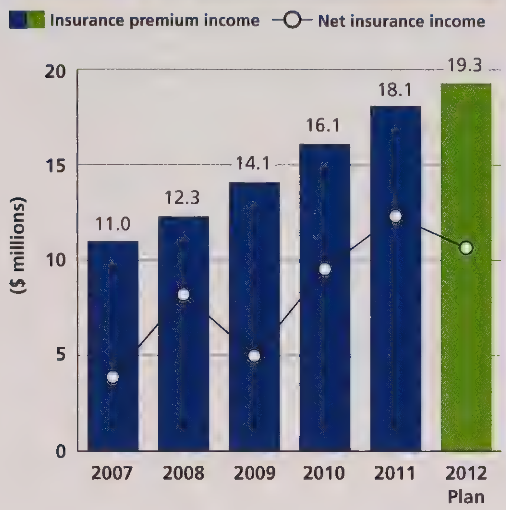


Investments outstanding by sector*



*Investments at cost

Insurance income



FCC Insurance offers loan, creditor life and accident insurance to provide protection to customers, their businesses and their families. SunLife Assurance Company of Canada administers FCC insurance programs.

Life insurance premiums, net of claims, contribute directly to FCC's net income. Insurance premium income has increased consistently over the last several years as a result of FCC's growing portfolio, as well as specific emphasis on insurance coverage as part of a customer's complete loan package. Life insurance premiums increased to $18.1 million in 2010-11 compared to $16.1 million in 2009-10. Net insurance income varies from year to year depending on claims paid. In 2010-11, total incurred claims were $7.0 million compared to $7.6 million the previous fiscal year, resulting in net insurance income of $11.1 million compared to $8.5 million in 2009-10.

FCC Learning is FCC's information and learning program that supports FCC's commitment to continued investment in agriculture. In 2010-11, 13,908 people attended 151 core FCC Learning events and 15,666 people participated in 137 events in FCC partner programs.

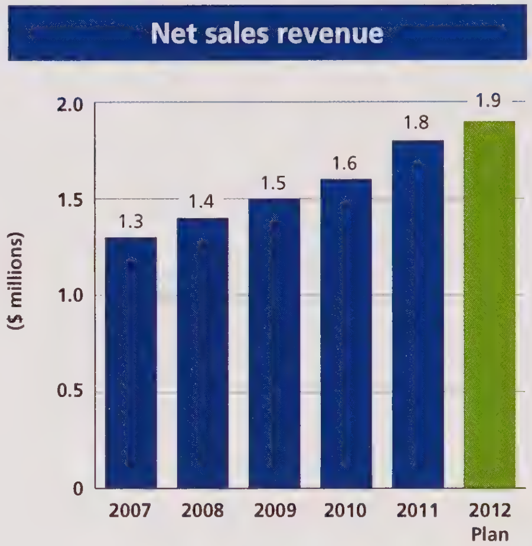
FCC offers several learning products aimed at addressing the increasingly sophisticated knowledge needs of primary producers and agribusiness operators. These products include:

- management workshops and learning tours
- FCC Forums
- partnership programs with industry partners
- the AgriSuccess bi-monthly magazine (formerly AgriSuccess Journal)
- the electronic newsletter, FCC Express
- e-learning tools, including webinars and video

FCC Management Software is focused on developing, promoting and improving farm management software for the Canadian agriculture industry.

FCC Management Software packages support the business of agriculture by providing valuable solutions to farmers that will help to ensure their success and viability. Its products include AgExpert Analyst and Field Manager PRO. AgExpert Analyst is financial management software designed specifically for farmers. Field Manager PRO is an electronic field record-keeping system for all types of crops.

In 2010-11, net sales revenue, including product support, increased by 12.5% to $1.8 million and is expected to reach $1.9 million in 2011-12.



Profitability

Net interest income and margin

Changes in net interest margin, along with changes in portfolio volume, are primarily responsible for the increase in net interest income (NII). The net interest margin must cover credit risk and administration expenses and yield a return sufficient for the organization to fund future growth.

The following table contains historical interest rate spreads and net interest margins. Interest rate spreads are the difference between the interest rates earned on interest-earning assets and the interest rates paid on interest-bearing liabilities.

Net interest margin

	2011		2010		2009		2008		2007	
($ millions)	**Average balance**	**Rate**	Average balance	Rate	Average balance	Rate	Average balance	Rate	Average balance	Rate
Earning assets:										
Fixed loan principal balance	**6,369.6**	**5.97%**	6,557.1	6.25%	7,170.2	6.50%	6,601.5	6.63%	5,313.9	6.55%
Variable loan principal balance	**13,921.7**	**3.72%**	11,769.9	3.09%	8,562.1	4.89%	7,523.8	6.84%	7,507.4	6.76%
Investments	**995.9**	**0.80%**	874.4	0.27%	711.1	2.50%	645.5	4.44%	838.7	4.22%
Venture capital investments	**50.1**	**2.06%**	57.8	4.07%	57.2	5.39%	54.4	6.46%	40.9	12.26%
Total earning assets	**21,337.3**	**4.35%**	19,259.2	4.15%	16,500.6	5.58%	14,825.2	6.72%	13,700.9	6.66%
Total interest-bearing liabilities	**18,869.9**	**1.01%**	17,056.6	1.13%	14,440.3	2.86%	12,879.0	4.36%	11,933.0	4.17%
Total interest rate spread		**3.34%**		3.02%		2.72%		2.36%		2.49%
Impact of non-interest – bearing items		**0.10%**		0.14%		0.33%		0.58%		0.58%
Net interest margin		**3.44%**		3.16%		3.05%		2.94%		3.07%

Interest rates on total earning assets increased from 2009-10 to 2010-11 due to increasing rates on FCC variable rate loans as the Bank of Canada raised the overnight rate. In addition, the interest rate on FCC's debt decreased due to reduced interest expenses arising from debt repurchases. In 2009-10, FCC incurred $65.3 million in additional expense related to the repurchase of $1,086.3 million in capital market debt. In 2010-11, FCC repurchased a further $209.9 million in capital market debt at a cost of $17.0 million and recognized $19.3 million related to the amortization of fair value gains resulting from debt repurchases completed in prior years. The net impact in 2010-11 of total debt repurchases is an increase in NII of $2.3 million. The $67.6 million increase in NII impact from 2009-10 to 2010-11 is a key contributor to the increase in the net interest margin.

The following table outlines the year-over-year increases to NII and outlines changes caused by shifts in portfolio volume and net interest margin.

Net interest income and margin

($ millions)	2012 Plan	**2011**	2010	2009	2008	2007
Net interest income	738.9	**738.5**	609.9	508.0	434.4	415.5
Average total assets	21,908.2	**21,462.3**	19,290.2	16,649.9	14,764.7	13,530.6
Net interest margin (%)	3.37	**3.44**	3.16	3.05	2.94	3.07
Year-over-year change in net interest income due to:						
Increase in volume	14.5	**56.2**	81.7	39.9	32.9	33.7
Changes in margin	(14.1)	**72.4**	20.2	33.7	(14.0)	(6.6)
Total change to net interest income	0.4	128.6	101.9	73.6	18.9	27.1

FCC experienced growth over the previous year in both NII and margin. NII increased by 21.1% to $738.5 million and average total assets increased by 11.3% to $21,462.3 million due to the increase in loans receivable. Net interest margin is expected to drop to 3.37% in 2011-12. This is due to both an expected decrease in lending margins and a narrowing of the spread between the rate FCC earns on its assets and the rate it pays on its debt. In 2010-11, FCC's borrowing costs remained extremely low as demand for government debt continued to remain strong, keeping rates low relative to assets. In 2011-12, interest rates and competition are anticipated to increase resulting in decreased margins.

Other income

FCC generates income through its non-lending business lines including FCC Ventures, FCC Insurance and FCC Management Software products and support sales. In 2010-11, FCC experienced a 55.2% increase in income to $16.0 million from these non-lending sources. This increase was primarily due to FCC's share of earnings in a venture capital investment over which the corporation has significant influence and an increased level of net insurance income. These income sources are expected to decrease to $11.6 million in 2011-12.

Credit quality

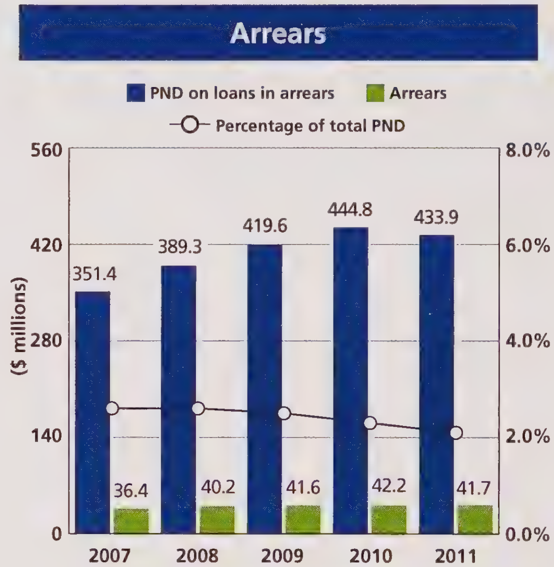
As part of FCC's strategy to deliver an extraordinary customer experience and support Canadian agriculture, the corporation continually monitors its portfolio and the industry to proactively identify and develop solutions to help customers through difficult times. FCC has developed customized programs to assist sectors experiencing extraordinary challenges. FCC also provides several products that have payment deferral options, providing flexibility in payments to support customers in challenging times, as well as in times of opportunity.

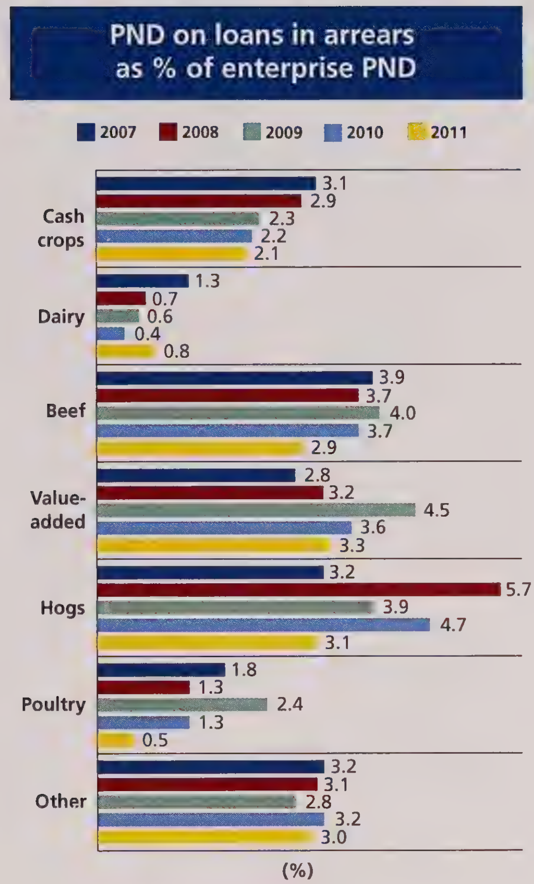
While these payment schedule adjustments are used to assist customers, it is important to note that these programs and payment deferral options may understate the impact of economic events on arrears and impaired loans. These programs offer the customer increased payment flexibility in a variety of ways, including enabling the customer to amend the payment schedule on a loan. The number of customers using these support programs and deferral options is closely monitored to gauge the overall health of the portfolio and ensure proper risk management practices are employed.

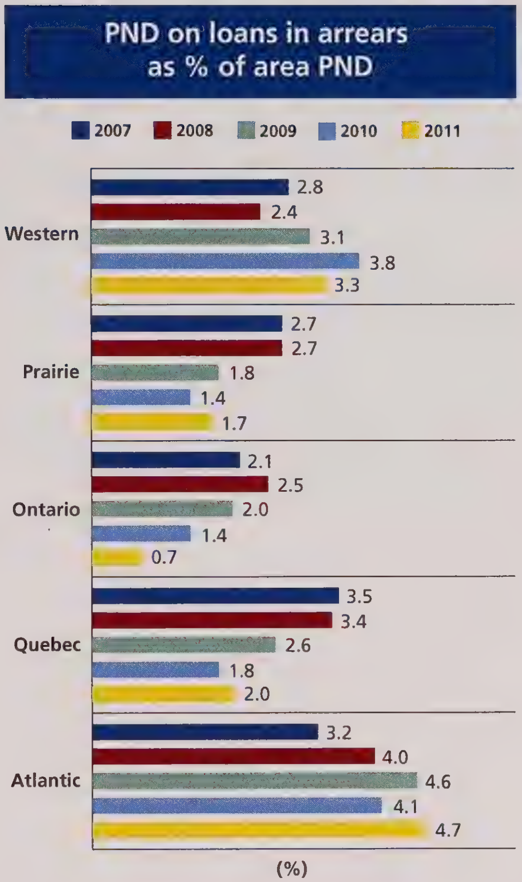
FCC has sound business practices in place for analyzing credit quality and monitoring loans in arrears and impaired loans. From this analysis, FCC can better assess the appropriate level of allowance for credit losses and determine whether its risk is within acceptable tolerances. In addition to the allowance for credit losses, FCC has the ability to withstand further losses due to its strong equity position.

Arrears

In 2010-11, PND on loans in arrears decreased by 2.5% to $433.9 million, and arrears decreased by 1.2% to $41.7 million. PND on loans in arrears, as a percentage of total PND, improved by 0.2% to 2.1%, which reflects effective mitigation of risk through portfolio diversification and sound credit risk practices. Arrears are anticipated to increase to $84.7 million in 2011-12 as a result of an increased level of risk and expected portfolio growth.




PND on loans in arrears as % of enterprise PND
2007
2008
2009
2010
2011
Cash crops
3.1
2.9
2.3
2.2
2.1
Dairy
1.3
0.7
0.6
0.4
0.8
Beef
3.9
3.7
4.0
3.7
2.9
Value-added
2.8
3.2
4.5
3.6
3.3
Hogs
3.2
5.7
3.9
4.7
3.1
Poultry
1.8
1.3
2.4
1.3
0.5
Other
3.2
3.1
2.8
3.2
3.0
(%)

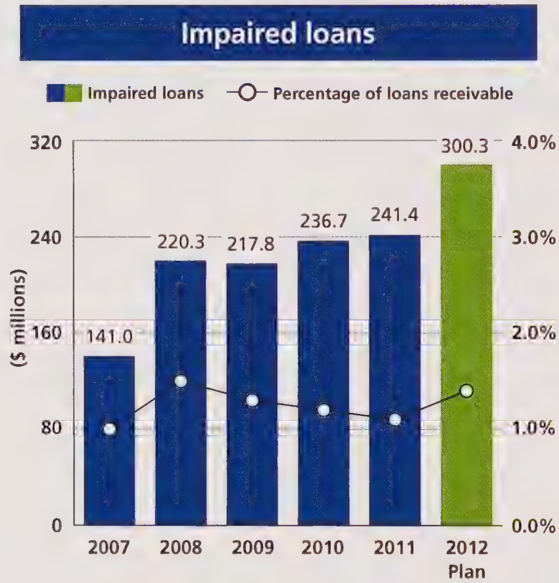

PND on loans in arrears as % of area PND
2007
2008
2009
2010
2011
Western
2.8
2.4
3.1
3.8
3.3
Prairie
2.7
2.7
1.8
1.4
1.7
Ontario
2.1
2.5
2.0
1.4
0.7
Quebec
3.5
3.4
2.6
1.8
2.0
Atlantic
3.2
4.0
4.6
4.1
4.7
(%)

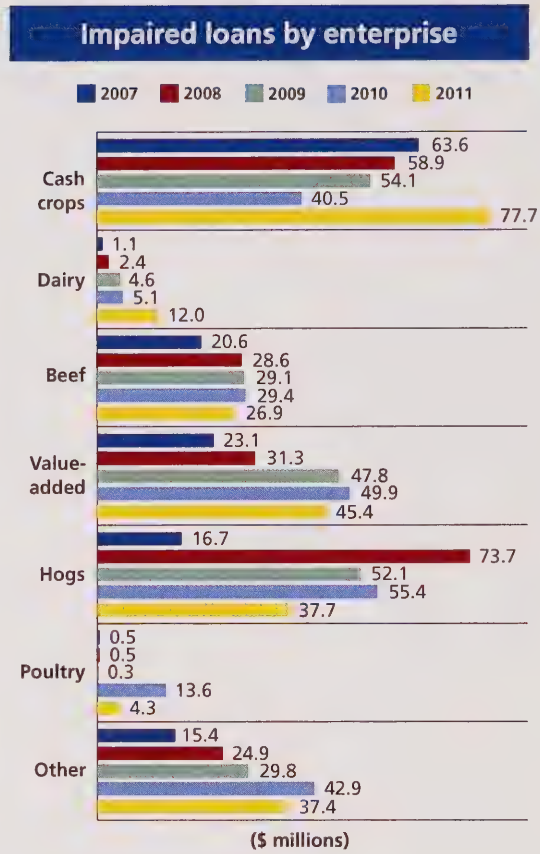
Impaired loans

In 2010-11, impaired loans increased by $4.7 million from the previous fiscal year to $241.4 million. Impaired loans as a percentage of loans receivable improved by 0.1% to 1.1%. In 2011-12, impaired loans are projected to increase by $58.9 million to $300.3 million due to an increase in the level of risk and growth in loans receivable.

At an enterprise level, impaired loans for cash crops experienced the largest year-over-year increase of $37.2 million to $77.7 million. The hog enterprise experienced the largest year-over-year decrease of $17.7 million to $37.7 million.

FCC customer support programs, addressed earlier, give FCC employees the opportunity to proactively provide support to individual customers or enterprises during financial difficulties. In 2010-11, FCC made 1,819 payment schedule adjustments, 374 of which were part of its enterprise-specific support programs. Payment schedule adjustments as a percentage of PND decreased from 4.5% in 2009-10 to 3.3% in 2010-11.



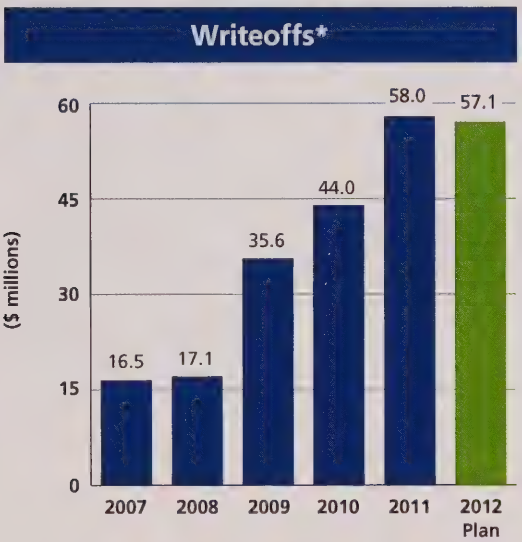


Writeoffs

Loan amounts deemed uncollectible by management are considered in default and may result in full or partial writeoffs, depending on the level and value of security on hand.

In 2010-11, the amount of writeoffs, net of recoveries, increased to $58.0 million. Writeoffs as a percentage of loans receivable increased from 0.2% to 0.3%.

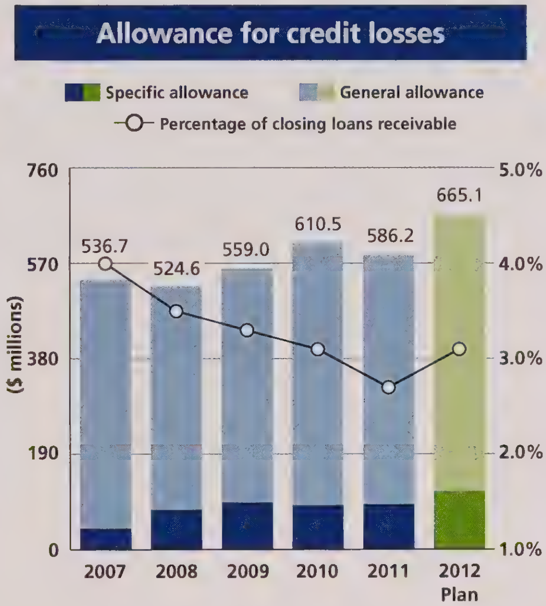
Writeoffs are projected to decrease by $0.9 million or 1.6% in 2011-12 to $57.1 million. Writeoffs as a percentage of loans receivable are expected to remain at 0.3%. Additional losses may be realized as a result of ongoing economic conditions.



*Net of recoveries

Allowance for credit losses

The allowance for credit losses is an estimate used to adjust loans receivable to reflect the estimated realizable value. In addition to the use of indicators, such as loans in arrears and impaired loans, management must rely on estimates and judgment when assessing the appropriate level of realizable value. These factors, coupled with changes in the external operating environment, may cause the realized credit losses to be materially different from current assessments, resulting in the need for an increase or decrease in the provision for credit losses.



The allowance for credit losses has two components:

Specific allowance – provides for management's best estimate regarding incurred losses on specific loans that have become impaired. It is the shortfall between the realizable amount from the security provided on the loan and the total amount outstanding on the loan at the time of impairment.

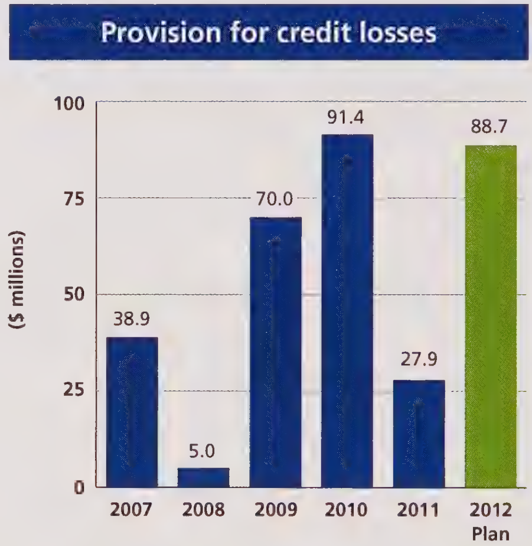
General allowance – provides for management's best estimate of incurred losses that exist in the portfolio that have not been specifically identified as impaired. Analysis to determine the general allowance considers loans that have shown some deterioration in credit quality. It also estimates unidentified losses in response to recent events or changes in economic conditions, as well as losses that may be caused by general economic trends. Using this analysis, management can provide for credit losses within the portfolio that have not yet manifested themselves as observable deterioration on specific loans.

In 2010-11, the allowance for credit losses decreased to $586.2 million, $24.3 million lower than the previous fiscal year. The decrease was due to updating the parameters in the model used to calculate the allowance for credit losses as well as improved portfolio health. The updated parameters reflect FCC's lower than expected loss experience in recent years. The allowance for credit losses as a percentage of closing loans receivable decreased from 3.1% to 2.7%. The allowance is expected to increase by 13.5% to $665.1 million in 2011-12.

Provision for credit losses

Once the allowance for credit losses and writeoffs are determined by management, the provision for credit losses is charged against net income by an amount necessary to bring the allowance for credit losses to the appropriate level.

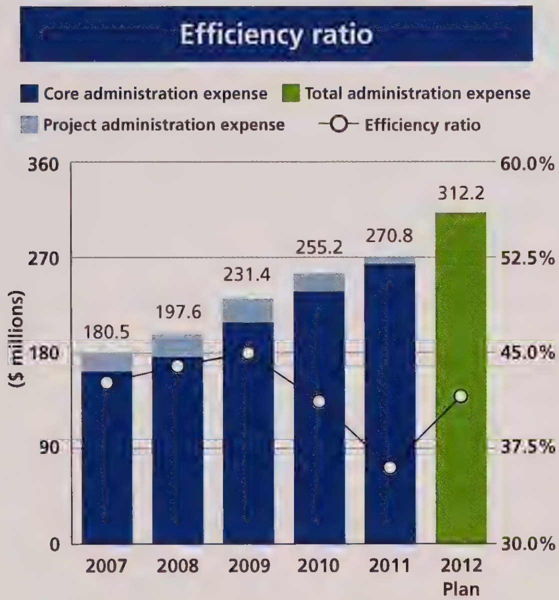
To bring the allowance to the appropriate level of $586.2 million, the provision for credit losses decreased to $27.9 million in 2010-11. In 2011-12, the provision is expected to increase to $88.7 million as a result of an increase in the level of risk and the growth in loans receivable.



Efficiency

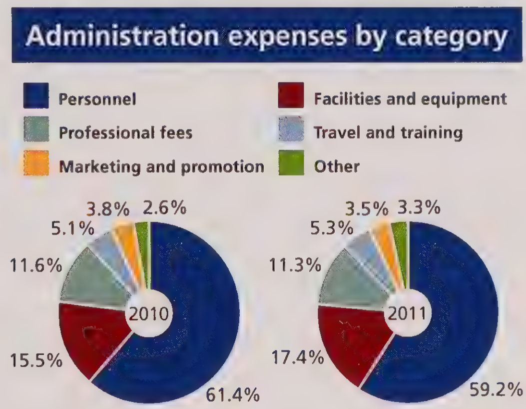
The efficiency ratio measures the percentage of income earned that is spent on the operation of the business. A low efficiency ratio indicates efficient use of corporate resources. FCC administration expenses are broken down into core expenses and project expenses. Core expenses represent costs associated with the day-to-day operation of FCC, and include such costs as salaries and benefits and travel and training expenses. Project expenses are costs related to specific projects undertaken by FCC to support operations and the achievement of strategic goals.

Core expenses increased by $26.0 million to $263.9 million in 2010-11. Project expenses in 2010-11 decreased by $10.4 million to $6.9 million as more project resources were utilized for capital projects compared to 2009-10. Although total administration expenses increased in 2010-11, the efficiency ratio improved from 41.2% to 35.9% due to higher net interest income.



In 2010-11, the largest increases in total administration expense were in the categories of facilities and equipment and personnel. The increases were primarily due to the amortization of software expenditures and resource requirements to support growth of the business and strategic initiatives. Facilities and equipment as a percentage of total administration expenses increased by 1.9% to 17.4%. Personnel continues to represent the largest proportion of total administration expenses in 2010-11 at 59.2%.

Total administration expenses are projected to increase to $312.2 million in 2011-12 and the efficiency ratio is expected to increase to 41.6%. FCC will work diligently to contain costs below this projection. Growth in administrative expense will be necessary to support continued portfolio growth, normal inflationary pressures and additional depreciation on current capital projects.



Funding and liquidity

Funding activity

On April 21, 2008, FCC began borrowing directly from the federal government under the Crown Borrowing Program and continues to carry capital market debt that was raised prior to that date.

During 2010-11, FCC raised short- and long-term funds through the following programs:

- Domestic Commercial Paper Program (for U.S. dollars)
- Crown Borrowing Program

Short-term funding

Short-term funding consists of borrowings with a term to maturity of one year or less. Funding is raised through the Domestic Commercial Paper Program and the Crown Borrowing Program. The outstanding short-term borrowings at March 31, 2011, were $8.0 billion compared to $8.8 billion at March 31, 2010. Of the total short-term borrowings outstanding, $7.6 billion were funds from the Crown Borrowing Program.

Long-term funding

Long-term funding consists of all borrowings with a term to maturity of more than one year, which includes fixed-rate borrowings and floating rate notes. Floating rate notes are borrowings with a term to maturity of more than one year that have a floating interest rate that resets based on one-month or three-month T-bill rates. In 2010-11, FCC borrowed a total of $5.8 billion in long-term funds, down from $6.5 billion the previous fiscal year. In 2010-11, all long-term borrowing was through the Crown Borrowing Program.

Overall, the total growth in funding during 2010-11 was an increase of $1.2 billion or 6.7%. This is consistent with the overall growth of the loan portfolio of $1.6 billion or 7.9%, during the same time period.

Credit ratings

New and outstanding capital market debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. During 2010-11, the corporation's debt ratings were unchanged by Moody's Investors Service and Standard & Poor's. FCC's foreign and domestic debt ratings as of March 31, 2011, are detailed below.

Credit ratings

	Domestic debt		Foreign debt	
	Long-term	Short-term	Long-term	Short-term
Moody's	Aaa	P1	Aaa	P-1
Standard & Poor's	AAA	A-1+	AAA	A-1+

Financial instruments

Most of FCC's balance sheet is comprised of financial instruments that include, but are not limited to, items such as cash, loans receivable and investments. The use of financial instruments exposes FCC to interest rate and, to a lesser extent, foreign exchange rate fluctuations. As part of its overall liability management, FCC uses derivatives to hedge risks and reduce income volatility to help ensure FCC's long-term profitability. Derivative risk management is discussed further in Note 24 of the Notes to the Consolidated Financial Statements. Fair value measurement of FCC's financial instruments is described in Note 20 of the Notes to the Consolidated Financial Statements.

Cash flow

Cash and cash equivalents have decreased $26.2 million from $628.0 million at March 31, 2010, to $601.8 million at March 31, 2011. In 2010-11, cash of $454.9 million and $1.2 billion was provided by operating and financing activities respectively, and $1.7 billion was used in investing activities.

Capital Management

Capitalization

FCC's gross assets are $22,496.2 million, of which $3,354.8 million are supported by equity and allowance for credit losses. At this level of capitalization, 14.9% of assets do not require external debt financing. Capitalization is expected to increase to 15.9% in 2011-12, due to lower portfolio growth relative to growth in retained earnings.

($ millions)	2012 Plan	**2011**	2010	2009	2008	2007
Equity:						
Capital	547.7	**547.7**	547.7	547.7	547.7	547.7
Retained earnings	2,186.3	**2,025.7**	1,584.3	1,321.0	1,132.0	914.4
Non-controlling interest in variable interest entity	17.1	**13.4**	9.5	7.6	0.2	0.0
Accumulated other comprehensive income	187.7	**181.8**	203.6	407.2	97.1	0.0
Subtotal	2,938.8	**2,768.6**	2,345.1	2,283.5	1,777.0	1,462.1
Allowance for credit losses	665.1	**586.2**	610.5	559.0	524.6	536.7
Total capitalization	3,603.9	**3,354.8**	2,955.6	2,842.9	2,301.6	1,998.8
Gross assets not requiring debt financing (%)	15.9	**14.9**	14.1	15.5	14.4	13.9

Debt to equity

FCC uses debt to equity as a key measure to assess capital adequacy. It is also used in financial management as a measure of the corporation's ability to fund future growth and meet long-term obligations. Monitoring debt to equity helps to ensure continued self-sustainability and financial viability.

FCC continues to be below its legislated limit of debt to equity, which is 12:1.

From 2009-10 to 2010-11, FCC's debt-to-equity ratio improved from 8.4:1 to 7.4:1. In 2011-12, this ratio is projected to improve further to 6.9:1. A contributing factor to this improvement is the relationship between portfolio and equity growth. When growth in equity exceeds portfolio growth, the debt-to-equity ratio decreases due to a reduced requirement for borrowed funds. In 2010-11, growth in equity was 20.8%, which exceeded the portfolio growth of 7.9%.

Shareholder return

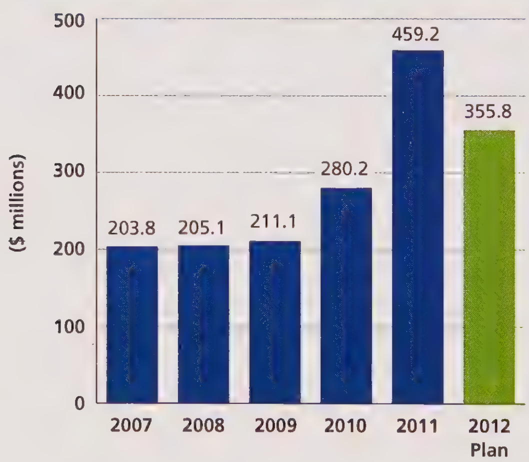
FCC uses three key corporate measures to determine its overall success toward financial strength: net income, return on equity and debt to equity. As discussed above, debt to equity improved from 8.4:1 in 2009-10 to 7.4:1 in 2010-11, due to the growth in equity exceeding the portfolio growth.

Net income

As part of its commitment to agriculture, FCC reinvests its earnings in agriculture through financing portfolio growth and developing new products and business services that support the industry.

Net income is composed of net interest income and other income, provision for credit losses, administration expenses and fair value adjustments. In 2010-11, net income increased by $179.0 million from the previous fiscal year, primarily due to the increased level of net interest income and the decrease in the provision for credit losses. These increases were offset by increases in administration expenses. Net income is projected to decrease 22.5% in 2011-12, mainly due to the lower net interest margins, a higher provision for credit losses and increased administrative expenses.

Net income

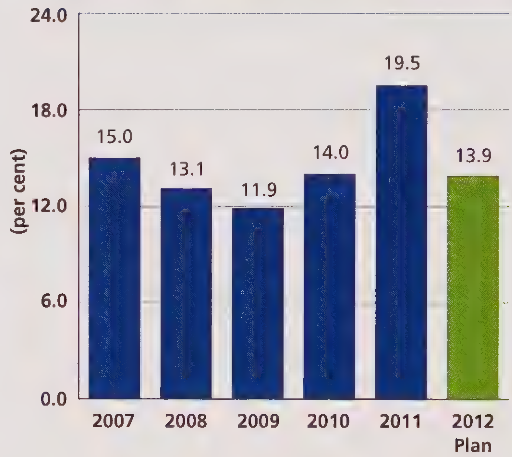


Return on equity

This ratio measures FCC's efficiency at using its existing equity base to generate income. It is used to evaluate financial performance, viability and the corporation's ability to fund future growth and strategic initiatives.

Return on equity increased to 19.5% in 2010-11 from 14.0% in 2009-10. The year-over-year increase was due to increased net income. Return on equity is projected to decrease to 13.9% in 2011-12. The decrease is mainly due to the lower net interest income, an increase in the provision for credit losses and higher administration expenses.

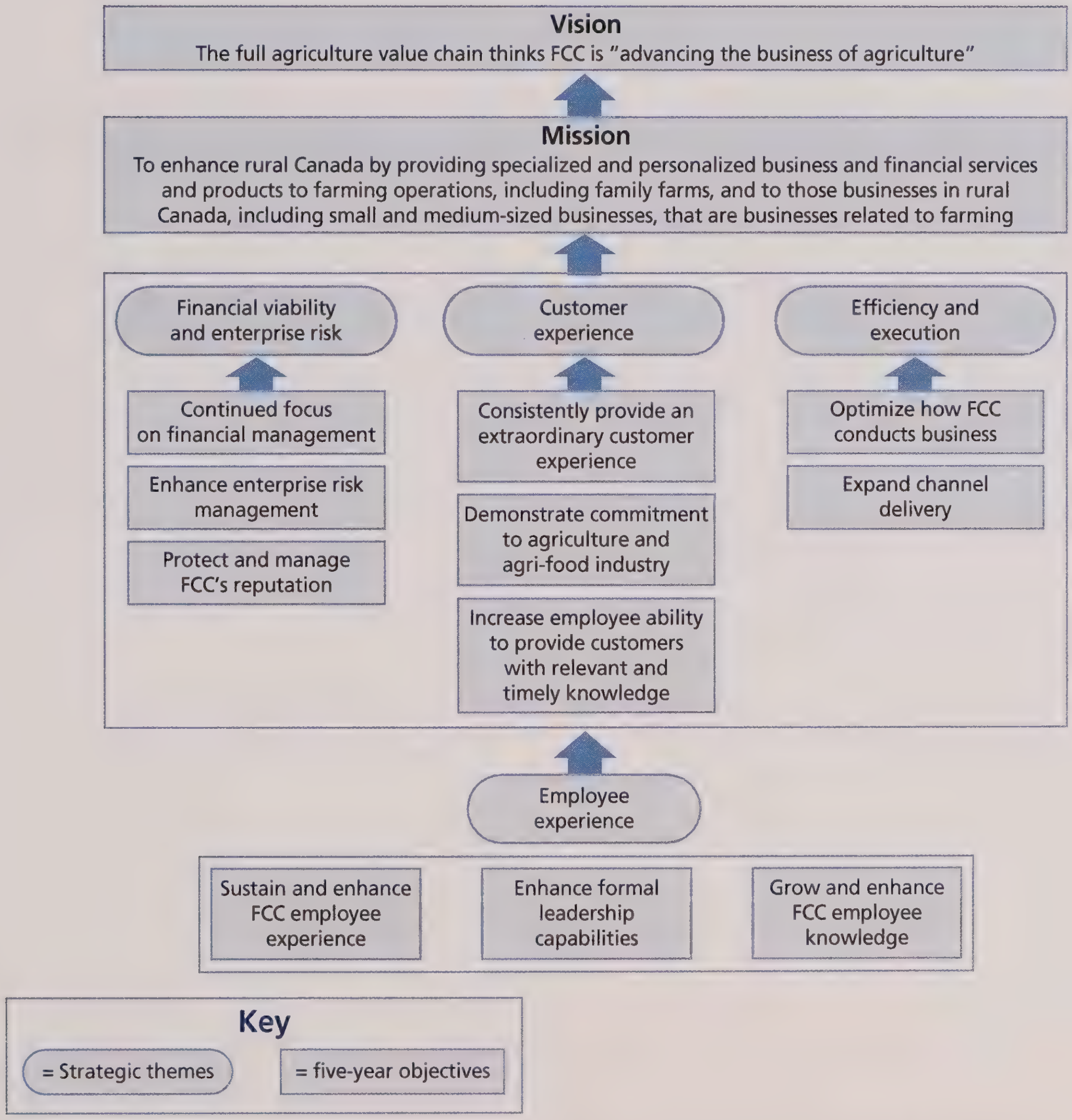
Return on equity



2011-12 Future targets, objectives and initiatives

FCC uses four strategic themes for corporate planning purposes. A corporate strategy map illustrates how the 11 five-year strategic objectives within these themes work together towards achieving FCC's vision and mission. The Employee experience theme and related objectives is foundational. Employee leadership, expertise and knowledge support FCC in executing the other three themes and initiatives. Together, these 11 objectives lead to accomplishing the corporate vision and mission.

Strategy map



The 2011-12 corporate scorecard outlines how we plan to continue providing products, services and knowledge tailored to the unique needs of the agriculture and agri-food industry.

Theme: Customer experience

Critical outcome

In 2020, FCC continues to deliver an extraordinary experience to customers. The Customer Experience Index score indicates that two out of three customers (65%) rate their experience with FCC as 5 out of 5.

Corporate measures	2011-12 Target	2012-13 Target	2013-14 Target
Customer experience index	60	60	60
Total lending to young farmers	$1.48 B	$1.73 B	$1.87 B
Number of learning program participants	10,500	11,000	11,250

Five-year strategic objectives	2011-12 Initiatives
Consistently provide an extraordinary customer experience	Continuously improve the customer experience by analyzing feedback and implementing relevant actions
	Implement alliance process redesign with external alliances
	Develop tailored service by market segment, including specialized expertise for large loans
	Implement web strategy
Demonstrate commitment to the agriculture and agri-food industry, with a particular focus on producers and young farmers	Enhance programs to support young farmers
	Implement knowledge offering that adds value to customers
	Increase collaboration with Agriculture and Agri-Food Canada on key issues impacting sector
	Enhance venture capital offering
Increase employee ability to provide customers with relevant and timely knowledge	Define agriculture/finance knowledge expectations of customer-facing staff and integrate with sales process
	Offer employees additional information to share with customers, including sector-specific knowledge, publications and key messages

Theme: Efficiency and execution

Critical outcome

In 2020, FCC continues to be recognized as a highly efficient, effective and agile organization that is easy to do business with. The corporation has an efficiency ratio of 45% or lower.

Corporate measures	2011-12 Target	2012-13 Target	2013-14 Target
Efficiency ratio	41.6%	41.3%	41.1%
Employee engagement (easy to do business indicators)[1]	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers

1) Easy to do business indicators include: co-workers, physical work environment; resources; work processes; work tasks

Five-year strategic objectives	2011-12 Initiatives
Optimize how FCC conducts business	Implement business process and technical transformation program (BK)
	Implement optimization strategy
	Implement new property valuation software
	Develop corporate-wide business process management
	Implement information management program
Expand channel delivery	Develop integrated channel delivery strategy
	Enhance e-business strategy
	Create strategy to enhance customer access to approved credit

Theme: Employee experience

Critical outcome

In 2020, FCC continues to be an employer of choice, with a culture that inspires employees to deliver an extraordinary customer experience. FCC's employee engagement score is greater than or equal to the average of the top 50 Canadian employers.

Corporate measures	2011-12 Target	2012-13 Target	2013-14 Target
Employee engagement index	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers
Employee index: (employee experience indicators)[1]	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers
Leadership index: (subset of employee engagement survey data leadership indicators)[2]	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers
Learning measure	Establish measure	TBD	TBD

1) Employee experience indicators – scores on the following drivers are averaged to calculate the score: career opportunities; learning and development; intrinsic motivation; managing performance; work/life balance

2) Leadership indicators – scores on the following drivers are averaged to calculate the score: senior leadership; manager; recognition; career opportunities; managing performance

Five-year strategic objectives	2011-12 Initiatives
Sustain and enhance FCC employee experience	Implement updated culture strategy
	Enhance workforce through the employment equity plan and diversity strategy
	Implement training to foster leadership at all levels
Enhance formal leadership capabilities	Implement leadership and succession planning
	Enhance workforce planning
Grow and enhance FCC employee knowledge	Implement Lending Essentials program
	Improve employee access to specialized agriculture and finance knowledge via intranet, collaboration tools, podcast and web

Theme: Financial viability and enterprise risk

Critical outcome

In 2020, FCC has a diversified agriculture, agribusiness and agri-food portfolio. The corporation has remained financially viable and self-sustaining, with a strong balance sheet and an ROE of greater than or equal to 12%.

Corporate measures	2011-12 Target	2012-13 Target	2013-14 Target
Net income	$355.8 M	$378.9 M	$408.2 M
Return on equity	13.9%	12.9%	12.3%
Debt-to-equity ratio	6.9:1	6.5:1	6.2:1
Portfolio growth	3.3%	7.0%	7.0%
ERM maturity measure	Establish measure	TBD	TBD
RSPS risk score	770 pts	770 pts	770 pts
Media favourability index	7 points above global average for financial institutions	7 points above global average for financial institutions	7 points above global average for financial institutions

Five-year strategic objectives	2011-12 Initiatives
Continued focus on financial management	Research and develop economic capital management framework
Enhance enterprise risk management (ERM)	Enhance internal controls
	Implement amended ERM framework
	Implement enhanced enterprise security
Protect and manage FCC's reputation as an ethical corporation with high integrity	Implement integrated reputation management strategy
	Benchmark FCC's environmental footprint

Enterprise risk management

Managing risks to protect the corporation and create value

As a financial institution, risk is inherent in virtually every decision. Whether lending to customers, defining business priorities or deciding where to invest in the business, potential risks are taken into account.

FCC is diligent about enterprise risk management (ERM). ERM is integrated with strategic planning across business lines and corporate initiatives.

Risk governance

The Board of Directors oversees FCC's risk governance framework, which is supported by a number of policies and committees that guide corporate decision-making.

Potential risks are identified and analyzed through external scanning, consultation with internal subject matter experts and by other means. FCC's Senior Leadership Team helps to identify the top enterprise risks, which are then presented to the Board for input. Members of the Executive Management Team (EMT) create risk mitigation plans, monitor progress, and report to the Board on a quarterly basis through the corporate scorecard.

A number of internal committees develop and monitor aspects of FCC's overall risk management policies, processes and practices. These committees report regularly to the CEO and to EMT as required, or to the Board of Directors.

Board of Directors and committees of the Board

The Board of Directors oversees risk management and ensures that policies, control systems and practices are in place to manage key business and financial risks. Three committees assist the Board in fulfiling its oversight responsibilities.

The **Audit Committee** of the Board ensures that management has identified key risks and reasonable policies, control systems and practices are in place to manage them and monitor effectiveness of remediation plans.

The **Human Resources Committee** reviews major human resources policy matters, the corporation's succession plan, and advises the Board of Directors on matters related to the CEO.

The **Corporate Governance Committee** reviews and makes recommendations to the Board with respect to sound governance practices.

FCC management risk committees

The **CEO** and **Executive Management Team** are responsible for corporate decision-making, including the business strategy, enterprise risk management, investment strategy, allocation of enterprise resources and resolution of major strategic issues.

FCC's **Senior Leadership Team** provides input to setting corporate priorities to achieve strategic objectives consistent with the mandate and approved direction.

The **Asset Liability Committee (ALCO)** directs FCC's asset/liability management function, including establishing and maintaining portfolio risk management policies and procedures, loan pricing direction, integration with corporate strategies and achievement of portfolio return targets.

FCC's **Credit Committee** reviews and makes lending decisions on agribusiness and agri-food loan applications from customers with a total exposure in excess of $10 million for established operations and in excess of $5 million for start-up operations. The committee reviews loans in primary production from customers with total exposure in excess of $15 million for established operations and in excess of $7.5 million for start-up operations.

The **Credit Policy Committee** oversees lending policies to ensure that they reflect FCC's credit risk tolerance, industry best practices and comply with federal, provincial and regional laws and regulations.

The **Employee Experience Committee** provides direction and guidance on key aspects of the FCC employee experience, orientation and change management.

The **ERM Steering Committee** reviews and recommends FCC's ERM framework, policies and strategies, and subsequent enhancements to EMT, and approves the annual top corporate risk action plans.

The **Horizon Committee** provides strategic direction to EMT on compensation and performance management issues. The committee also evaluates all jobs in relation to FCC's classification system.

The **Pension Committee** provides advice to the Human Resources Committee of the Board regarding monitoring the approved governance structure for the pension plan.

The **Security Co-ordination Committee** oversees the design and development of FCC's security policy and principles to ensure the protection of FCC employees and assets.

The **Strategy Execution Team** approves corporate projects that enable the execution of the business strategy.

The **Venture Capital Investment Committee** adjudicates all investment recommendations and monitors the performance of the FCC Fund venture capital investments.

Board and Board Committees

- Board of Directors
- Audit Committee
- Corporate Governance Committee
- Human Resources Committee

Senior Management

- CEO
- Executive Management Team
- Senior Leadership Team

Management Committees

- Asset Liability Committee (ALCO)
- Credit Committee
- Credit Policy Committee
- Employee Experience Committee
- ERM Steering Committee
- Horizon Committee
- Pension Committee
- Security Co-ordination Committee
- Strategy Execution Team
- Venture Capital Investment Committee

FCC's principal risks

Risk is the potential for an event, action or inaction that may threaten FCC's ability to achieve its business mandate and objectives. FCC has five principal risks: credit, market, operational, strategic and reputation.

Credit risk

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet financial obligations to the corporation. This is the most significant risk that the corporation faces.

Overall, the Board of Directors is responsible for approving the organization's credit risk tolerance and relies on a number of committees, divisions and departments to effectively manage credit risks that impact the corporation.

Assessment of credit risk starts with individual transactions. FCC lending and credit risk staff assess and manage credit risk by ensuring that individual loans are consistent with defined policies and guidelines.

In addition to managing credit risk at the transactional level, the Portfolio and Credit Risk Division assesses credit risk at the aggregate level by providing assessment tools and models that quantify risks, establish the required allowance for loan and lease losses and monitor capital adequacy. Policies, processes, systems, internal controls and strategies are used to manage the credit risk of the portfolio. FCC also closely monitors the agriculture and agri-food operating environments to ensure that the corporation's lending policies, activities and practices are appropriate and relevant.

Further details on how FCC manages credit risk are described in Note 24 of the Notes to the Consolidated Financial Statements.

Market risk

Market risk is the potential for loss due to adverse changes in underlying market factors, such as interest rates and foreign exchange rates.

Market risk policies are regularly reviewed by ALCO and approved by the Board of Directors. The Treasury division implements market risk management directives and reports regularly to ALCO and the Board of Directors on its activities and asset/liability positions.

FCC has market risk policies and limits in place to ensure that exposure to interest rate and foreign exchange risks are identified, measured, managed and reported on a timely basis. Market risk management at FCC also encompasses derivative fair value risk and liquidity risk. Policies include limits around the variability of net interest income and the market value of portfolio equity relative to interest rate changes.

Liquidity risk is minimized through the use of a liquid investment portfolio, funding through the Crown Borrowing Framework and access to an operating line of credit.

Further details on how FCC manages market risk are described in Note 24 of the Notes to the Consolidated Financial Statements.

Operational risk

Operational risk relates to the potential of direct or indirect loss due to inadequate or failed internal processes, people, systems or external events, and failure to comply with or adapt to legislative or regulatory requirements or litigation.

FCC is committed to preserving customer and shareholder value by proactively managing operational risk. Managers are responsible to manage operational risk by ensuring that appropriate policies and procedures are in place within their business units, and that internal controls are operating effectively.

FCC's Field Operations Audit program examines lending activities and provides learning opportunities for continuous improvement in the areas of risk assessment and mitigation, compliance to lending policy, and data integrity.

Incidents of fraud may affect customer and public perceptions of FCC, and impact their willingness to do business with the corporation. FCC reduces exposure to fraud risk by implementing a Board-approved fraud risk management policy and delivering fraud awareness training to staff.

To ensure that the corporation can sustain operations in the event of a business disruption, FCC actively updates and tests its business continuity management program.

Enterprise security is addressed through a cross-divisional security co-ordination team that promotes security policies, best practices and incident handling strategies that optimize privacy and protection for human, physical, information (customer, corporate and employee) and technology assets.

FCC is entering the final stages of implementing a major information technology (IT) systems renewal that will streamline and automate many business processes, ensuring that the IT infrastructure can support business into the future. Risks related to the project are mitigated by extensive risk governance and reporting, ongoing reviews by Internal Audit and an external consultant, and change management and training activities.

Strategic risk

Strategic risk refers to risks related to the external environment and includes competitors as well as the corporation's ability to develop and implement effective business strategies.

Executive management develops corporate strategy annually, with oversight provided by the Board of Directors. Progress on the strategic plan is monitored through quarterly reporting to senior management and the Board of Directors. The external environment is monitored (including the Canadian financial marketplace and the agriculture industry) to discern if strategic changes are required to address emerging risks. FCC regularly communicates with the federal government to ensure alignment of the corporation's activities with government priorities.

Reputation risk

Reputation risk is the risk that key stakeholders and other publics may develop negative perceptions about FCC that could adversely affect the corporation's reputation and its ability to attract and retain customers, business partners and employees.

As a federal Crown corporation, FCC is accountable to all Canadians. To avoid real or perceived reputational damage, FCC has a robust governance structure in place, including policies and procedures to guide employee conduct in interactions with colleagues, customers, industry partners, suppliers, media and the general public.

Consideration of integrity and the potential impact on FCC's reputation from conducting business with any particular individual is part of the lending process. The loan application process requires customers to sign a declaration stating that they know of no reason why FCC may have any concern with their business. FCC will only lend to individuals with personal integrity.

Changes in accounting standards

Current changes

Consolidated financial statements and non-controlling interest

On April 1, 2010, the corporation early adopted the Canadian Institute of Chartered Accountants Handbook Section 1601, Consolidated Financial Statements, and 1602, Non-Controlling Interests. As a result of adopting the new standards, the non-controlling interest of the corporation is now presented as a separate component of shareholder's equity. The non-controlling interest is no longer recorded as a deduction of net income and total comprehensive income, but is shown as a separate component of the Consolidated Statement of Operations and the Consolidated Statement of Comprehensive Income. In addition, the Consolidated Statement of Changes in Shareholder's Equity now discloses the allocation of net income, total comprehensive income and shareholder's equity, respectively, between the shareholder of the parent and the non-controlling interest.

Future changes

International Financial Reporting Standards

Pursuant to a decision made by the Canadian Accounting Standards Board, the corporation will begin reporting under International Financial Reporting Standards (IFRS) starting with the year ended March 31, 2012, including March 31, 2011, comparative results. Changing from Canadian generally accepted accounting principles (GAAP) to IFRS was a significant undertaking for the corporation. The corporation developed and followed an IFRS conversion plan with a formal governance structure to monitor the progress and critical decisions made during the conversion. New or amended IFRS will continue to be monitored for impacts to the corporation.

An external consultant was engaged to partner with the organization throughout the conversion process, as required. A high-level scoping study was completed, identifying impacts IFRS will have on the corporation's policies, processes and systems. The results of this study provided the framework for the corporation's detailed conversion plan.

Consideration of the required resources for the IFRS conversion project resulted in the dedication of certain full-time resources as well as other employees on a part-time basis as their expertise was required.

The following table lists key elements of the corporation's conversion plan, major milestones and the status of their completion. The corporation's conversion plan was completed over the time period from July 2008 to March 2011. Management previously disclosed that the conversion plan would be completed in June 2012. During the fiscal year, the corporation completed its implementation of the policies and procedures required to ensure IFRS compliance and a decision was made that the specific project dedicated to the implementation of IFRS had fulfilled the defined business objectives. The remaining tasks identified in the conversion plan are consistent with the day-to-day responsibilities of the corporation and will be managed as such. Completion of the first IFRS-compliant annual financial statements continues to be a key goal of the corporation.

Element	Milestone	Status
Financial Reporting		
Determine accounting and reporting differences. Select ongoing IFRS accounting policies. Select IFRS 1 elections.	Executive management approval of IFRS accounting policy and IFRS 1 election choices to occur in Q2, 2009-10.	Executive management approval of accounting policy choices and IFRS 1 elections has been obtained.
Develop IFRS financial statement format, including disclosures.	Draft financial statement format to be completed by Q4, 2009-10.	IFRS financial statement format has been completed.
Quantify effects of conversion.	Opening IFRS balance sheet to be completed in Q2, 2010-11.	Opening IFRS balance sheet has been completed and the effects of conversion have been quantified.
Systems and Processes		
Determine impact of accounting policy changes on systems and processes and implement required changes.	System and process changes completed in time to support dual reporting requirements throughout fiscal 2010-11.	System and process changes required have been implemented, including development of a dual reporting system for fiscal 2010-11. The changes required were not significant.
Confirm systems and processes support data requirements of financial reporting.	Comparative financial statements and disclosures completed throughout fiscal 2010-11.	IFRS financial statements have been completed for the comparative year.
Ensure the control environment is maintained as system and process changes are implemented.	All key control implications have been assessed when planning system and process change implementations.	System and process changes were assessed for impacts to the control environment. No significant changes were required.
Business		
Assess impacts to all areas of the business and implement required changes.	Impact to all areas of the business to be determined by Q2, 2009-10.	Assessment of impacts on other areas of the business has been completed. Impacts were communicated to the business areas and required changes were implemented. Changes were not significant.
Communicate conversion plan, impacts of IFRS and implementation progress internally and externally.	Maintain and execute change management and communication plans throughout the project.	Updates are provided to the Audit Committee at each meeting. Special sessions were held to communicate IFRS impacts identified and IFRS 1 election choices and to present the opening IFRS balance sheet.
Determine and provide the appropriate level of IFRS training for each area of the corporation.		Detailed IFRS training has been provided to key members of the IFRS project team. The training and information needs of the rest of the corporation have been identified and addressed.

The following describes the key changes that the corporation expects to make to its accounting policies as a result of the conversion to IFRS as well as the key IFRS 1 elections the corporation expects to make. The descriptions below are based on the accounting standards that the corporation expects to be effective for its first IFRS reporting period and may be amended as circumstances and standards change.

A final determination of the impact IFRS will have on the consolidated financial statements of the corporation cannot be measured with certainty until all the IFRS applicable at March 31, 2012, the corporation's first IFRS year-end, are known. The quantified impacts detailed below are therefore subject to change.

The total impact to the corporation's total shareholder's equity at April 1, 2010, the corporation's IFRS transition date, is expected to be a decrease of $127.9 million.

Employee benefits

(i) Under IFRS, the corporation expects that its accounting policy will be to recognize actuarial gains and losses in other comprehensive income (OCI) annually at March 31 of each year. Under GAAP, the corporation currently recognizes actuarial gains and losses over time using the corridor approach. The corporation expects to elect to recognize all cumulative actuarial gains and losses for its defined benefit plans at the date of transition. The transitional adjustment to retained earnings relating to this item is expected to be a decrease of $63.4 million. Further, the corporation expects to elect to use the exemption not to disclose the present value of the defined benefit obligation, the fair value of the plan assets, the defined benefit plan surplus/deficit and experience adjustments before the date of transition.

(ii) Under IFRS, the corporation must recognize a liability immediately for all past service costs arising from plan amendments to the extent that the benefits are already vested, and otherwise must recognize them on a straight-line basis over the average period until the benefits become vested. Under Canadian GAAP, all past service costs from plan amendments were amortized over the average remaining service period of active employees when the amendment was recognized. On transition, the corporation expects to recognize all vested past service costs and the impact to retained earnings is expected to be a decrease of $1.3 million.

(iii) IFRS requires that if the corporation has a net pension asset for its defined benefit obligation, the asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the corporation. An economic benefit is available to the corporation if it is realizable during the life of the plan, or on settlement of the plan liabilities. Canadian GAAP did not calculate the asset ceiling in this manner. On transition, the corporation expects to recognize an additional liability, the impact of which is expected to be a decrease of $41.8 million to accumulated other comprehensive income.

(iv) Under IFRS, the measurement date for the accrued benefit obligation and the plan assets must be a date such that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period. Under Canadian GAAP, the plan assets and accrued benefit obligation were measured three months prior to the date of the annual financial statements. On transition, the corporation expects to recognize a $21.4 million decrease to retained earnings as a result of the change in measurement date.

(v) IFRS requires the corporation to record a liability for non-vesting short-term compensated absences. The expense is recognized when the employee renders service that increases their entitlement to future compensated absences that do not vest. Canadian GAAP did not require a liability for this type of short-term employee benefit to be recorded. The transitional adjustment to retained earnings to record the obligation is expected to be a decrease of $1.2 million.

Loan origination costs

Under IFRS, loan origination costs must be incremental and directly attributable to the loan origination. Loan origination costs must be deferred and recognized over the expected term of the loan using the effective interest rate method. Under Canadian GAAP, a portion of administrative expenses were deferred and recognized over the expected term of the loan using the effective interest rate method as they were considered direct costs of negotiating and executing loan agreements. These costs do not meet the criteria of loan origination costs under IFRS and the corporation expects to recognize the deferred balance at transition. The transitional impact to retained earnings is expected to be a decrease of $6.0 million.

Fees assessed after loan origination

Under IFRS, fees assessed after loan origination are recognized in income immediately. This includes conversions, re-amortizations, terming out, and payment schedule amendments, which under Canadian GAAP were deferred and recognized over the expected term of the loan using the effective interest method. The corporation expects to recognize the deferred balance at transition. The transitional impact to retained earnings is expected to be an increase of $5.7 million.

Unwinding of the discount

When a loan is classified as impaired, the carrying amount is reduced to its estimated realizable amount through an adjustment to the allowance for credit losses. An impairment loss is recorded as the difference between the loan's carrying amount and the present value of discounted estimated future cash flows. In subsequent periods, any change in present value of estimated future cash flows attributable to the passage of time adjusts the allowance for credit losses through the unwinding of the discount and the amount of the adjustment is recorded as income. Under IFRS, this income is recognized in interest income while under Canadian GAAP, it was recognized as a reduction to the provision for credit losses. There is no expected effect on the corporation's total shareholder's equity at transition from adopting this new income recognition policy.

Investments in associates

Under IFRS, investments in associates consolidated by the parent company of a venture capital organization must be accounted for at cost using the equity method of accounting. Under Canadian GAAP, venture capital investments under significant influence consolidated by the parent company of a venture capital organization were accounted for at fair value. The impact on transition is expected to be a $1.1-million increase to retained earnings and a $0.5-million increase to non-controlling interest in variable interest entity.

Other IFRS elections at transition

Business combinations

The corporation is expecting to elect not to apply IFRS 3, Business Combinations, retrospectively to business combinations that occurred before the date of transition to IFRS. Therefore, prior business combinations would not be restated and there would be no effect on the corporation's financial statements at transition from applying this exemption.

Leases

The corporation is expecting to elect under IFRS 1 not to reassess whether an arrangement contains a lease under IFRIC 4 for contracts that were assessed under Canadian GAAP. Arrangements entered into before the effective date of EIC 150 that have not subsequently been assessed under EIC 150 were assessed under IFRIC 4 and no additional leases were identified. There is not expected to be a financial statement impact at transition as a result of this election.

Borrowing costs

Under Canadian GAAP, the corporation expensed borrowing costs as incurred. At the date of transition, the corporation is expecting to elect to capitalize borrowing costs only in respect of qualifying assets for which the commencement date for capitalization was on or after the date of transition. There is not expected to be a financial statement impact at transition as a result of this election.

The following tables further illustrate the impact the transition to IFRS is expected to have on the financial position and performance of the corporation.

Reconciliation of equity

($ thousands)	April 1, 2010
Total equity under Canadian GAAP	$ 2,345,055
Differences increasing (decreasing) retained earnings	
Employee benefits	(87,454)
Loan origination costs	(6,038)
Fees assessed after loan origination	5,725
Investments in associates	1,064
Differences decreasing accumulated other comprehensive income	
Employee benefits	(41,755)
Differences increasing non-controlling interest in variable interest entity	
Investments in associates	526
Total equity under IFRS	$ 2,217,123

Reconciliation of Consolidated Balance Sheet as of April 1, 2010

($ thousands)

Canadian GAAP accounts	Canadian GAAP	IFRS adjustments	IFRS	IFRS accounts
Assets				**Assets**
Cash and cash equivalents	$ 628,023	$ –	$ 628,023	Cash and cash equivalents
Temporary investments	199,818	–	199,818	Temporary investments
Accounts receivable	32,802	–	32,802	Accounts receivable
Derivative assets	66,945	–	66,945	Derivative assets
	927,588	–	927,588	
Loans receivable – net	19,159,940	(313)	19,159,627	Loans receivable – net
Finance leases receivable – net	2,827	–	2,827	Finance leases receivable – net
Venture capital investments	59,987	1,590	61,577	Venture capital investments
	19,222,754	1,277	19,224,031	
Equipment and leasehold improvements	31,513	–	31,513	Equipment and leasehold improvements
Computer software	42,814	–	42,814	Computer software
Equipment under operating leases	14,867	–	14,867	Equipment under operating leases
Other assets	46,791	(33,915)	12,876	Other assets
	135,985	(33,915)	102,070	
Total assets	**$ 20,286,327**	**$ (32,638)**	**$ 20,253,689**	**Total assets**
Liabilities				**Liabilities**
Accounts payable and accrued liabilities	$ 48,619	$ 1,229	$ 49,848	Accounts payable and accrued liabilities
Derivative liabilities	6,843		6,843	Derivative liabilities
	55,462	1,229	56,691	
Borrowings				Borrowings
Short-term debt	8,810,407	–	8,810,407	Short-term debt
Long-term debt	8,948,764	–	8,948,764	Long-term debt
	17,759,171	–	17,759,171	
Other liabilities	126,639	94,065	220,704	Other liabilities
Shareholder's equity				**Equity**
Contributed surplus	547,725	–	547,725	Contributed surplus
Retained earnings	1,584,266	(86,703)	1,497,563	Retained earnings
Accumulated other comprehensive income	203,603	(41,755)	161,848	Accumulated other comprehensive income
Equity attributable to shareholder of parent entity	2,335,594	(128,458)	2,207,136	Equity attributable to shareholder of parent entity
Non-controlling interest in variable interest entity	9,461	526	9,987	Non-controlling interest in special purpose entity
	2,345,055	(127,932)	2,217,123	
Total liabilities and shareholder's equity	**$ 20,286,327**	**$ (32,638)**	**$ 20,253,689**	**Total liabilities and equity**

Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of Farm Credit Canada and all information in this annual report are the responsibility of the corporation's management and have been reviewed and approved by the Board of Directors. The consolidated financial statements include some amounts that are necessarily based on management's best estimates and judgments, such as the allowance for credit losses, the accrued benefit obligation, the reserve for insurance claims, variable interest entities and the fair value of financial instruments.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial information presented elsewhere in the annual report is consistent with that contained in the consolidated financial statements.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are properly authorized and recorded, assets are safeguarded, liabilities are recognized, proper records are maintained, and the corporation complies with applicable laws and conflict of interest rules. The system of internal control is augmented by internal audit, which conducts periodic reviews of different aspects of the corporation's operations.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, which is composed of Directors who are not employees of the corporation. The Audit Committee meets with management, the internal auditors and the external auditors on a regular basis. Internal and external auditors have full and free access to the Audit Committee.

The corporation's independent external auditor, the Auditor General of Canada, is responsible for auditing the transactions and consolidated financial statements of the corporation and for issuing his report thereon.

Greg Stewart

Greg Stewart, P.Ag.
President and Chief Executive Officer

Rick Hoffman, CMA, MBA
Executive Vice-President and
Chief Financial Officer

Regina, Canada
June 1, 2011

Auditor General of Canada
Vérificateur général du Canada

Independant Auditor's Report

To the Minister of Agriculture and Agri-Food

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of Farm Credit Canada which comprise the consolidated balance sheet as at 31 March 2011, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in shareholder's equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Farm Credit Canada as at 31 March 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of Farm Credit Canada that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Canada Act*, the bylaws of Farm Credit Canada and the directive issued pursuant to Section 89 of the *Financial Administration Act*.

John Wiersema, FCA
Interim Auditor General of Canada

1 June 2011

Consolidated Balance Sheet

As at March 31 ($ thousands)	2011	2010 Restated (Note 3)
Assets		
Cash and cash equivalents	$ 601,840	$ 628,023
Temporary investments (Note 4)	284,162	199,818
Accounts receivable	12,676	32,802
Derivative assets (Note 5)	47,407	66,945
	946,085	927,588
Loans receivable – net (Notes 6 and 8)	20,748,432	19,159,940
Finance leases receivable – net (Notes 7 and 8)	4,912	2,827
Venture capital investments (Note 9)	58,024	59,987
	20,811,368	19,222,754
Equipment and leasehold improvements (Note 10)	29,314	31,513
Computer software (Note 11)	42,124	42,814
Equipment under operating leases (Note 12)	19,077	14,867
Other assets (Note 13)	62,089	46,791
	152,604	135,985
Total assets	$ 21,910,057	$ 20,286,327
Liabilities		
Accounts payable and accrued liabilities	$ 50,656	$ 48,619
Derivative liabilities (Note 5)	4,724	6,843
	55,380	55,462
Borrowings (Note 15)		
Short-term debt	8,029,920	8,810,407
Long-term debt	10,921,999	8,948,764
	18,951,919	17,759,171
Other liabilities (Note 16)	134,128	126,639
Shareholder's equity		
Contributed surplus	547,725	547,725
Retained earnings	2,025,725	1,584,266
Accumulated other comprehensive income	181,804	203,603
Equity attributable to shareholder of parent entity	2,755,254	2,335,594
Non-controlling interest in variable interest entity	13,376	9,461
	2,768,630	2,345,055
Total liabilities and shareholder's equity	$ 21,910,057	$ 20,286,327

Commitments, guarantees and contingent liabilities (Note 21).

The accompanying notes are an integral part of the consolidated financial statements.

Approved:

Greg Stewart, P.Ag.
President and Chief Executive Officer

John Klippenstein, CMA
Chair, Audit Committee

Consolidated Statement of Operations

For the year ended March 31 ($ thousands)	2011	2010
Interest income		
Loans and leases	$ 937,091	$ 797,441
Investments	9,559	5,888
	946,650	803,329
Interest expense	208,156	193,450
Net interest income (Note 17)	738,494	609,879
Provision for credit losses (Note 8)	27,932	91,402
Net interest income after provision for credit losses	710,562	518,477
Net insurance income	11,130	8,563
Other income	4,858	1,749
Net interest income and non-interest income	726,550	528,789
Administration expenses (Note 18)	270,801	255,165
Net income before fair value adjustment	455,749	273,624
Fair value adjustment (Note 19)	3,446	6,568
Net income	$ 459,195	$ 280,192
Net income (loss) attributable to:		
Shareholder of parent entity	$ 459,959	$ 281,916
Non-controlling interest in variable interest entity	(764)	(1,724)

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended March 31 ($ thousands)		2011		2010
Net income	$	**459,195**	$	280,192
Other comprehensive income				
Net gains (losses) on derivatives designated as cash flow hedges		**498**		(186,689)
Transfer of net realized gains on derivatives designated as cash flow hedges to net income		**(21,060)**		(16,896)
Change in net losses on derivatives designated as cash flow hedges		**(20,562)**		(203,585)
Net unrealized losses on available-for-sale temporary investments		**(1,237)**		(6)
Total other comprehensive loss	$	**(21,799)**	$	(203,591)
Total comprehensive income	$	**437,396**	$	76,601
Total comprehensive income (loss) attributable to:				
Shareholder of parent entity	$	**438,160**	$	78,325
Non-controlling interest in variable interest entity		**(764)**		(1,724)

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Shareholder's Equity

($ thousands)	Balance, April 1, 2010	Comprehensive income	Dividend paid	Distributions to non-controlling interest	Balance, March 31, 2011
Contributed surplus	$ 547,725	$ –	$ –	$ –	$ 547,725
Retained earnings	1,584,266	459,959	(18,500)	–	2,025,725
Net gains (losses) on derivatives designated as cash flow hedges	203,859	(20,562)	–	–	183,297
Net unrealized losses on available-for-sale assets	(256)	(1,237)	–	–	(1,493)
Total accumulated other comprehensive income (loss)	203,603	(21,799)	–	–	181,804
Non-controlling interest in variable interest entity	9,461	(764)	–	4,679	13,376
Total	$ 2,345,055	$ 437,396	$ (18,500)	$ 4,679	$ 2,768,630

($ thousands)	Balance, April 1, 2009	Comprehensive income	Dividend paid	Distributions to non-controlling interest	Balance, March 31, 2010
Contributed surplus	$ 547,725	$ –	$ –	$ –	$ 547,725
Retained earnings	1,320,950	281,916	(18,600)	–	1,584,266
Net gains (losses) on derivatives designated as cash flow hedges	407,444	(203,585)	–	–	203,859
Net unrealized losses on available-for-sale assets	(250)	(6)	–	–	(256)
Total accumulated other comprehensive income (loss)	407,194	(203,591)	–	–	203,603
Non-controlling interest in variable interest entity	7,555	(1,724)	–	3,630	9,461
Total	$ 2,283,424	$ 76,601	$ (18,600)	$ 3,630	$ 2,345,055

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended March 31 ($ thousands)		2011		2010 Restated (Note 3)
Operating activities				
Net income	$	459,959	$	281,916
Adjustments to determine net cash from (used in) operating activities:				
Adjustment for loans no longer impaired		6,470		–
Provision for credit losses		27,932		91,402
Fair value adjustment		(3,446)		(6,568)
Amortization (1)		(7,928)		(2,828)
Foreign exchange (gains) losses		(47)		165
Other		(2,931)		44
Net change in accrued interest receivable and payable		(26,351)		(23,552)
Net change in other operating assets and liabilities		1,253		15,809
Cash provided by operating activities	$	454,911	$	356,388
Investing activities				
Net change in loans receivable	$	(1,586,227)	$	(2,653,264)
Net change in finance leases receivable		(2,020)		(2,858)
Net change in temporary investments		(84,314)		(155,936)
Acquisition of venture capital investments		(12,002)		(11,282)
Proceeds on disposal and repayment of venture capital investments		15,582		8,793
Purchase of equipment and leasehold improvements		(8,649)		(13,439)
Purchase of computer software		(14,563)		(18,169)
Purchase of equipment under operating leases		(7,862)		(11,295)
(Acquisition) disposal of real estate property held for sale		(24)		845
Cash used in investing activities	$	(1,700,079)	$	(2,856,605)
Financing activities				
Long-term debt issued	$	5,775,881	$	6,494,404
Long-term debt repaid		(3,486,289)		(3,351,310)
Short-term debt issued		42,093,003		71,043,951
Short-term debt repaid		(43,164,403)		(71,834,808)
Proceeds on sale of derivatives		19,293		98,683
Dividend paid		(18,500)		(18,600)
Cash provided by financing activities	$	1,218,985	$	2,432,320
Change in cash and cash equivalents	$	(26,183)	$	(67,897)
Cash and cash equivalents, beginning of year		628,023		695,920
Cash and cash equivalents, end of year	$	601,840	$	628,023
Cash and cash equivalents are comprised of:				
Cash	$	18,106	$	7,377
Short-term investments		583,734		620,646
Supplemental information				
Cash interest paid during year	$	211,617	$	249,649

(1) Includes amortization of equipment and leasehold improvements, computer software, equipment under operating leases, AOCI, bond premium/discount, deferred revenue fees and deferred initial direct leasing costs.

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. The corporation

Authority and objectives

Farm Credit Canada (the corporation) was established in 1959 by the Farm Credit Act as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the Financial Administration Act. The corporation is wholly owned by the Government of Canada and is not subject to the requirements of the Income Tax Act.

On April 2, 1993, the Farm Credit Corporation Act was proclaimed into law and replaced the Farm Credit Act and the Farm Syndicates Credit Act, both of which were repealed. The Act continues the corporation with its corporate office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

On June 14, 2001, the Farm Credit Canada Act received royal assent, which updated the Farm Credit Corporation Act. This new Act continues the corporation as Farm Credit Canada and allows the corporation to offer producers and agribusiness operators a broader range of services.

In September 2008, the corporation, together with a number of other Crown corporations, was issued a directive (P.C. 2008-1598) pursuant to Section 89 of the Financial Administration Act requiring due consideration by the corporation to the personal integrity of those it lends to or provides benefits to. During fiscal 2011, the corporation continued to ensure the requirements of Section 89(6) of the Financial Administration Act were being implemented.

The purpose of the corporation is to enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small and medium-sized businesses, that are businesses related to farming. The primary focus of the activities of the corporation shall be on farming operations, including family farms.

2. Significant accounting policies

Basis of presentation

Consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

The preparation of the consolidated financial statements in accordance with GAAP requires that management make estimates, assumptions and judgments that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. The more significant areas requiring the use of management estimates and judgments are the allowance for credit losses, the accrued benefit obligation, the reserve for insurance claims, variable interest entities and the fair value of financial instruments.

The significant accounting policies used in the preparation of these consolidated financial statements are summarized in the following pages.

Basis of consolidation

The consolidated financial statements include the accounts of the corporation and Avrio Ventures Limited Partnership (Avrio), a variable interest entity for which the corporation is the primary beneficiary due to holding a 67% interest in the partnership. An adjustment has been made for significant intervening transactions occurring between Avrio's year-end of December 31 and the year-end of the corporation. All significant intercompany balances and transactions have been eliminated. The non-controlling interest, which represents the equity in Avrio not attributable to the corporation, has been presented in the Consolidated Balance Sheet, the Consolidated Statement of Operations, the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Shareholder's Equity.

Classification and designation of financial instruments

Financial assets are classified or designated as loans and receivables, held for trading (HFT) or available-for-sale (AFS). Financial liabilities are classified or designated as HFT or other financial liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. HFT financial instruments are financial assets or liabilities that are purchased or incurred with the intention of generating profits in the near term, derivatives not designated in hedging relationships or financial instruments designated upon initial recognition as HFT. AFS financial instruments are those intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification.

Cash and cash equivalents

Cash and cash equivalents are composed of bank account balances and short-term highly liquid investments that are readily convertible to cash with a maturity date of 90 days or less from the date of acquisition. Interest earned on cash and cash equivalents is included in investment income.

Temporary investments

Temporary investments have maturity dates between 91 and 365 days from the date of acquisition, are acquired primarily for liquidity purposes and are designated as AFS. Temporary investments are accounted for at fair value using settlement date accounting and a valuation technique as described under the Fair Value of Financial Instruments heading. Unrealized fair value gains and losses are included in other comprehensive income (OCI). Interest income is accrued when receivable and included in investment income.

Derivatives

Derivative financial instruments create rights and obligations that are intended to mitigate one or more of the financial risks inherent in an underlying primary financial instrument. The corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations, within limits approved by the Board of Directors. These limits are based on guidelines established by the Department of Finance. The corporation does not use derivative financial instruments for speculative purposes.

Derivatives not designated as hedging instruments in effective hedging relationships are classified as HFT. HFT derivatives are recorded at fair value using a valuation technique as described under the Fair Value of Financial Instruments heading, with gains and losses reported in the fair value adjustment. HFT derivatives are reported as assets where they have a positive fair value and liabilities where they have a negative fair value. Interest earned and incurred on HFT derivatives is included in interest income and expense, respectively.

Cash flow hedge accounting

Derivatives that are designated as hedging items in cash flow hedges are accounted for at fair value. The effective portion of changes in a derivative's fair value is recognized in OCI while the ineffective portion of changes in a derivative's fair value is reported in the fair value adjustment. Derivatives designated as hedging items are reported as assets where they have a positive fair value and liabilities where they have a negative fair value. Interest income or expense related to derivatives designated as hedging items in cash flow hedges is recognized on the same basis as the hedged item, as an adjustment to interest income or expense, respectively.

Cash flow hedge accounting is discontinued prospectively when the derivative contract is terminated, matures or no longer qualifies as an effective cash flow hedge. When a cash flow hedge is discontinued, any cumulative gains or losses previously recognized in OCI are transferred to net interest income over the remaining term of the original hedge and in the same manner that net interest income is affected by the variability in the cash flows as the hedged item. For derivatives still outstanding following the date of the discontinued hedging relationship, all subsequent fair value gains and losses are recognized immediately in the fair value adjustment.

Loans receivable

Loans are classified as loans and receivables. Loans receivable are stated net of an allowance for credit losses and deferred loan fees and are measured at amortized cost using the effective interest rate method.

Loan interest income is recorded on an accrual basis and is recognized in net income using the effective interest rate method until the loan is classified as impaired. Once a loan is impaired, the unwinding of the discount on the security value is recognized as a reduction to the provision for credit losses based on the original effective interest rate of the loan.

Loan origination fees, including commitment fees and renegotiation fees, are considered an integral part of the return earned on a loan and are recognized in interest income over the expected term of the loan using the effective interest rate method. In addition, certain incremental direct costs for originating the loans are deferred and netted against the related fees.

An impaired loan is any loan where, in management's opinion, there has been a deterioration of credit quality to the extent that the corporation no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, any loan that is $500 or more in arrears for 90 days is classified as impaired unless the loan is sufficiently secured. When a loan is classified as impaired, the carrying amount is reduced to its estimated realizable amount through an adjustment to the allowance for credit losses. Changes in the estimated realizable amount arising subsequent to initial impairment are also adjusted through the allowance for credit losses.

Loan interest income is not accrued when a loan is classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to performing status when, in management's opinion, the ultimate collection of principal and interest is reasonably assured. When the impaired loan is restored to performing status, the allowance for credit losses is reduced through the adjustment for loans no longer impaired for the amount of loan interest income now recognized.

Loans are written off against the related allowance for credit losses if there is no realistic prospect of future recovery.

Finance leases receivable

Finance leases receivable are classified as loans and receivables. Finance leases receivable are stated net of an allowance for credit losses and are recorded at the aggregate future minimum lease payment plus estimated residual values less unearned finance income. Finance lease income is recognized in a manner that produces a constant rate of return on the lease.

Allowance for credit losses

The corporation recognizes an allowance for credit losses that represents management's best estimate of the incurred impairment in the loan and lease portfolio at the balance sheet date. The allowance is increased or decreased by the provision for credit losses, the government subsidy for the Hog Industry Loan Loss Reserve Program (HILLRP), as described under the Government Assistance heading, and the adjustment for loans no longer impaired, as described under the Loans Receivable heading. The allowance is reduced by writeoffs net of recoveries.

The corporation assesses at each balance sheet date whether there is objective evidence that a loan or lease is impaired. If there is objective evidence that an impairment loss on a loan or lease has been incurred, the carrying amount of the loan or lease is reduced through the allowance for credit losses and the amount of the loss is recognized in the provision for credit losses. In determining the allowance for credit losses, management segregates credit losses into two components: specific allowance and general allowance.

Specific allowance – Based on an account-by-account review, the specific allowance is established to value impaired loans or leases at the lower of the balance sheet carrying amount of the loan or lease and its estimated realizable value. The realizable value is based on the fair value of any underlying security, as well as the estimated time and costs required to realize the security. Changes in the estimated realizable value arising subsequent to initial impairment are adjusted through the specific allowance. For loans that were originated on the basis of cash flow lending, no collateral is held by the corporation and the estimated realizable value is based on expected cash flows as well as the estimated time and costs to realize the cash flows.

General allowance – A general allowance is established to provide for estimated credit losses incurred at the balance sheet date relating to individual loans or leases in the portfolio that have shown deterioration in credit quality but have not yet met the corporation's criteria for inclusion in the specific allowance. A model is used to determine the estimated credit losses for such loans or leases. The model considers specific indicators of deterioration in credit quality, including adverse changes in the payment status of borrowers. The amount of the general allowance is calculated based on the application of loan default rates to the estimated loss amounts for loans and leases identified. These factors are based on the corporation's historical experience and are adjusted to reflect current conditions.

The general allowance also provides for losses that have occurred at the balance sheet date but cannot be identified on an individual loan or lease basis and is calculated on a collective basis. In determining the amount of this portion of the general allowance, management assesses business and economic conditions, historical loss experience adjusted for current market considerations, loan and lease portfolio composition and other relevant factors. As a single-industry lender, the corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting agricultural regions and enterprises. Accordingly, management includes these factors in its assessment.

The allowance for credit losses is an estimate for accounting purposes. Events may occur that render the underlying assumptions invalid and thus cause actual credit losses to vary significantly from management's estimate. The methodology and assumptions used by management are reviewed regularly in an attempt to reduce any differences between loss estimates and actual loss experience.

Venture capital investments

Venture capital investments include investments that are held directly by the corporation (FCC Fund) and investments held by Avrio Ventures Limited Partnership (Avrio Fund). FCC Fund investments focus on providing financing to small and medium-sized companies in early to mature stages, while Avrio Fund investments target investments containing higher risk profiles in commercialization-to-growth stages.

The corporation designated its FCC Fund investments as HFT, with the exception of one investment over which the corporation has significant influence, in order to eliminate the need to identify and separate certain embedded options found in the investment contracts.

FCC Fund and Avrio Fund venture capital investments, where the corporation does not have significant influence, are accounted for at fair value using a valuation technique as described under the Fair Value of Financial Instruments heading, with gains and losses reported in the fair value adjustment. Interest on debt, calculated in accordance with the effective interest rate method, is accrued when receivable and included in interest income. Dividends on preferred and common shares are accrued when receivable and declared, respectively, and included in interest income. Royalty and fee income are also accrued when receivable and included in interest income.

The FCC Fund venture capital investment over which the corporation has significant influence is accounted for using the equity method. Under this method, the pro rata share of post-acquisition earnings is included in other income and adjusts the carrying value of the investment. Dividends received or receivable reduce the carrying value of the investment.

Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization.

Cost includes expenditures that are directly attributable to the acquisition of the equipment or leasehold improvement. Subsequent expenditures are included in the equipment or leasehold improvement's carrying amount, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the corporation and the cost of the item can be measured reliably. All repair and maintenance costs are expensed during the financial period in which they are incurred.

Amortization begins when the equipment or leasehold improvement is available for use by the corporation and is included in administration expenses. Amortization is calculated using the straight-line method over the following terms:

	Terms
Office equipment and furniture	5 years
Computer equipment	3 or 5 years
Leasehold improvements	Shorter of lease term or asset's useful economic life

Computer software

Software is recorded at cost less accumulated amortization. Expenditures on internally developed software are recognized as assets when the corporation is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the costs to complete the development. The capitalized costs of internally developed software include all costs directly attributable to developing the software.

Amortization begins when the software is available for use by the corporation. Amortization is recorded over the estimated useful life of three or five years using the straight-line method and is included in administration expenses.

Equipment under operating leases

Equipment under operating leases is recorded at cost less accumulated amortization. Equipment is amortized on a straight-line basis over the term of the lease. Rental revenue from operating leases is recognized on a straight-line basis over the term of the lease and is included in interest income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Employee future benefits

The corporation has a registered defined benefit pension plan, three supplemental defined benefit pension plans, a registered defined contribution pension plan, a supplemental defined contribution plan and other defined benefit plans that provide retirement and post-employment benefits to most of its employees. The defined benefit pension plans are based on the number of years of service and average salaries for the five highest-paid consecutive years of service and are inflation-protected. The supplemental defined benefit and supplemental defined contribution pension plans are available for employees with employment income greater than pensionable earnings.

Retirement benefit plans are contributory health-care plans with employee contributions adjusted annually and a non-contributory life insurance plan. Post-employment plans provide short-term disability income benefits, severance entitlements after employment and health-care benefits to employees on long-term disability.

The accrued benefit obligation for pension and other defined benefit plans is actuarially determined using the projected benefit method prorated on service that incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Actuarial gains or losses arise from the difference between the actual long-term rate of return on plan assets for the period and the expected long-term rate of return on plan assets for the period or from changes in actuarial assumptions used to determine the accrued benefit obligations. The excess of the net accumulated actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized on a straight-line basis over the average remaining service period of active employees. According to actuarial estimates, the average remaining service period for employees covered by the defined benefit pension plans is 10 years (2010 – 10 years). The average remaining service period to expected retirement age is 15 years (2010 – 15 years) for employees expected to receive benefits under the post-retirement non-pension benefit plan and 15 years (2010 – 15 years) for active employees covered by the post-employment benefit plan.

Past service costs arising from plan amendments are amortized on a straight-line basis over the average remaining service period of active employees when the amendment is recognized.

Insurance

The corporation sells group creditor life and accident insurance to its customers through a program administered by a major insurance provider. The insurance premiums are actuarially determined and are accrued when receivable and recorded in net insurance income.

Insurance claims expense, included in net insurance income, consists of paid claims that are recorded as incurred throughout the year, an accrual for insurance claims payable at year-end for claims that have been incurred as of the balance sheet date and adjustments to the reserve for insurance claims. The reserve for

insurance claims represents the liability due to the expected shortfall of future premiums compared to future claims. The reserve for insurance claims is recorded at fair value and included in other liabilities. The reserve is actuarially determined using the Canadian Asset Liability Method and is prepared on a going concern basis, taking into account the appropriate degree of risk inherent in the obligation. It is based on estimates of future premiums, expected future mortality costs and expenses, past experience, interest rates and margins for adverse deviation from these assumptions. Actual experience may vary from best estimate assumptions, which will result in plan experience that differs from what is projected. These assumptions are reviewed at least annually and updated in response to actual experience and market conditions. Changes in estimates are recorded in net income when made and are included in insurance claims expense.

The corporation maintains an insurance reserve asset with the insurance provider to fund future claim payments. The insurance reserve asset is classified as loans and receivables and measured at amortized cost and included in other assets.

Expenses related to administering the insurance program are recorded in administration expenses. The accrual for insurance claims payable is a financial instrument recorded at amortized cost in accounts payable and accrued liabilities.

Real estate property held for sale

Real estate property acquired from customers in settlement of loan commitments is classified as held for sale and recorded in other assets at fair value less selling costs. Fair value less selling costs is the amount that could be realized in an arm's-length disposition, considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower.

The carrying value of real estate property held for sale is adjusted to reflect significant decreases in the estimated fair value subsequent to acquisition. Recoveries arising from the disposal of real estate property held for sale are recognized when title to the property passes to the purchaser. Recoveries, adjustments and net operating costs incurred on real estate property held for sale are included in other income.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are classified as other financial liabilities and measured at amortized cost.

Borrowings

Borrowings are undertaken with the approval of the Minister of Finance. Borrowings are direct obligations of the corporation and thus constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

Structured notes form part of the corporation's funding program. Structured notes are hybrid securities that combine fixed income products with derivative financial instruments. The corporation designated its structured notes as HFT in order to record them on a basis consistent with the fair value changes in their related derivatives. Borrowings designated as HFT are accounted for at fair value with gains and losses reported in the fair value adjustment.

Other borrowings are classified as other financial liabilities and measured at amortized cost.

Interest incurred on all borrowings is recorded on an accrual basis and is recognized in interest expense using the effective interest rate method.

Transition loan liabilities

The corporation records a transition loan liability that represents amounts owing to third parties upon the signing of a contract that requires the corporation to pay amounts in accordance with a disbursement schedule relating to undisbursed transition loans, which are included in loans receivable. As payments are made in accordance with the transition loan disbursement schedule, the applicable amount of the transition loan liability is reduced accordingly. Transition loan liabilities are recorded at amortized cost and included in other liabilities.

Government assistance

The corporation is one of the financial institutions participating in the HILLRP. Under the HILLRP, the Government of Canada has established a loan loss reserve fund to share the net credit losses on eligible loans provided to hog operations with certain financial institutions. The corporation is responsible for all credit losses beyond those covered by the loan loss reserve fund and must meet certain eligibility requirements to access the reserve fund. The amount of funds available from the loan loss reserve fund to the corporation for any non-performing eligible loans are 90%, 80% and 70% of net credit losses in years 1 to 3, 4 to 6 and 7 to 15, respectively. Amounts held by the corporation to which the corporation is not entitled are paid back to the Government of Canada at the end of the program. The corporation's deadline for disbursing the loans eligible under this program has passed and no further loan loss reserve fund instalments are due from the Government of Canada.

An estimate is made by management for the amount of the loan loss reserve fund to which the corporation is entitled under the HILLRP and this estimate is accounted for as a reduction to the corporation's provision for credit losses. The remaining amount of the loan loss reserve fund, to which the corporation is not entitled, is recorded as long-term debt. Interest on this long-term debt is recorded in interest expense.

Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issuance or disposal of a financial asset or liability. Transaction costs relating to loans and receivables are deferred and amortized over the expected useful life of the instrument using the effective interest rate method. Transaction costs related to all other financial instruments are expensed as incurred.

Operating lease payments

Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs are expensed as incurred.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date. Income and expenses are translated at the monthly average exchange rates prevailing throughout the year. Exchange gains and losses on loans and receivables are included in interest income and exchange gains and losses on borrowings are included in interest expense.

Fair value of financial instruments

The fair value of financial instruments is determined based on published quoted market prices or valuation techniques when quoted market prices are not available. Fair values are point-in-time estimates that may change significantly in subsequent reporting periods due to changes in market conditions. Fair value techniques use models and assumptions about future events based on either observable or non-observable market inputs. As such, fair values are estimates involving uncertainties and may be significantly different when compared to another financial institution's value for a similar contract. The methods used to value financial instruments measured at fair value are as follows:

- The estimated fair value of temporary investments is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent securities.

- The estimated fair value of derivative assets and liabilities is determined using market standard valuation techniques. Where call or extension options exist, the value of these options is determined using current market measures for interest rates and currency exchange rates and takes volatility levels and estimations for other market-based pricing factors into consideration. Market observed credit spreads, where available, are a key factor in establishing valuation adjustments against the corporation's counterparty credit exposures. Where a counterparty does not have an observable credit spread, a proxy that reflects the credit profile of the counterparty is used.
- Venture capital investments in shares that are traded on an exchange are valued based on the bid prices as at year-end. Venture capital investments in shares of privately held companies are valued based on guidelines issued by the venture capital industry, using market-based valuation methodologies. Estimated fair value for venture capital debt investments is calculated by discounting contractual cash flows at interest rates prevailing at year-end with equivalent terms to maturity.
- The estimated fair value of structured notes, included in borrowings, is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity or by utilizing quoted market prices where available. Inputs used to determine the fair value include currency exchange rates, credit spreads, yield curves and volatility levels. Where embedded optionality exists (call features), fair values are derived using market standard valuation models and techniques. The value of the embedded options is determined using market measures for interest rates, currency exchange rates and volatility levels and estimations for other market-based pricing factors.

Changes in accounting standards

Consolidated financial statements and non-controlling interest

On April 1, 2010, the corporation early adopted the Canadian Institute of Chartered Accountants Handbook Section 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests. As a result of adopting the new standards, the non-controlling interest of the corporation is now presented as a separate component of shareholder's equity. The non-controlling interest is no longer recorded as a deduction of net income and total comprehensive income but is shown as a separate component of the Consolidated Statement of Operations and the Consolidated Statement of Comprehensive Income. In addition, the Consolidated Statement of Changes in Shareholder's Equity now discloses the allocation of net income, total comprehensive income and shareholder's equity, respectively, between the shareholder of the parent and the non-controlling interest.

Future changes in accounting standards

Initial adoption of International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011, as the date International Financial Reporting Standards (IFRS) will replace Canadian GAAP for publicly accountable enterprises. The corporation's first annual IFRS financial statements will be for the year ending March 31, 2012, and will include comparative figures.

Future changes to International Financial Reporting Standards

In November 2009, the International Accounting Standards Board (IASB) issued IFRS 9, Classification and Measurement, which addresses the classification and measurement of financial assets. In October 2010, the IASB added the requirements for classifying and measuring financial liabilities to IFRS 9. IFRS 9 replaces the classification and measurement portions of IAS 39, Financial Instruments Recognition and Measurement, and is the first in a three-phase project in progress by the IASB to replace IAS 39 in its entirety. These recommendations are effective for fiscal years beginning on or after January 1, 2013, and therefore, the corporation will implement them for its year ended March 31, 2014. The second and third phases of the project address Amortized Cost and Impairment and Hedge Accounting, respectively, and have not yet been finalized.

3. Prior period adjustment

As a result of a review of the 2009-10 year-end loans receivable and other liabilities, errors in the 2009-10 consolidated financial statement balances were discovered. The corporation has retroactively corrected the errors and restated the consolidated financial statements for the year ended March 31, 2010. The impact of these errors on the 2009-10 previously reported amounts in the Consolidated Balance Sheet is an increase to both loans receivable and other liabilities in the amount of $83.2 million. There was no impact to the 2009-10 net income or retained earnings.

4. Temporary investments

	2011		2010	
($ thousands)	Carrying value	Yield	Carrying value	Yield
Short-term instruments	$ 284,162	1.12%	$ 199,818	0.32%

Short-term instruments consist of deposit notes, bankers' acceptance and treasury bills issued by institutions with credit ratings of R-1M or higher (2010 – R-1M or higher) as rated by the Dominion Bond Rating Service (DBRS). As at March 31, 2011, the largest total investment in any one institution was $123.6 million (2010 – $89.9 million).

All temporary investments have an initial term to maturity of 91 to 365 days and will mature within three months.

5. Derivative financial instruments

($ thousands)	2011	2010
Derivative assets		
Derivatives designated as cash flow hedges	$ 46,310	$ 65,023
Derivatives classified as HFT	1,097	1,922
	$ 47,407	$ 66,945
Derivative liabilities		
Derivatives designated as cash flow hedges	$ 4,475	$ 3,819
Derivatives classified as HFT	249	3,024
	$ 4,724	$ 6,843

Types of derivative contracts

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed and/or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged. Included in interest rate swaps are receive-fixed swaps, pay-fixed swaps and certain structured note swaps.

Cross-currency interest rate swaps are transactions in which two parties exchange notional amounts in different currencies at inception and maturity, as well as interest flows, on the exchanged amounts on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest. Included in cross-currency interest rate swaps are certain structured note swaps.

The derivative contracts entered into by the corporation are over-the-counter instruments.

Cash flow hedges

Cash flow hedges consist of interest rate swaps. The corporation is exposed to variability in future interest cash flows on non-trading assets and liabilities that bear interest at variable rates or are expected to be refunded in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for the financial assets and financial liabilities on the basis of their contractual terms and other relevant factors. The principal balances and interest cash flows over time form the basis for identifying the effective portion of gains and losses on the derivatives designated as cash flow hedges of forecasted transactions.

The estimated amount of existing net gains reported in AOCI that is expected to be reclassified to net income within the next 12 months is $21.5 million.

The maximum length of time over which the corporation is hedging its exposure to the variability in future cash flows for anticipated transactions is 11 years.

Notional principal amounts

		Remaining term to maturity				
($ thousands)		Within 1 year	1 – 5 years	Over 5 years	2011	2010
Interest rate swap contracts						
Receive	**Pay**					
Fixed	Floating	$ 350,000	$ 449,675	$ 297,300	$ 1,096,975	$ 1,156,861
Cross-currency	Floating	–	–	–	–	22,704
Cross-currency	Fixed	–	3,397	–	3,397	3,679
		$ 350,000	$ 453,072	$ 297,300	$ 1,100,372	$ 1,183,244

Counterparty credit risk

Derivatives that have a positive fair value are subject to counterparty risk because the positive fair value indicates that over time the corporation can expect to receive cash flows from the counterparties based on the terms of the contract and current market conditions.

The net fair values of the derivative instruments are as follows:

	2011			2010
($ thousands)	Positive fair value	Negative fair value	Net fair value	Net fair value
Interest rate swaps	$ 47,407	$ 4,475	$ 42,932	$ 60,471
Cross-currency interest rate swaps	–	249	(249)	(369)
Fair value	47,407	4,724	42,683	60,102
Impact of master netting agreements	(4,694)	(4,694)	–	–
	$ 42,713	$ 30	$ 42,683	$ 60,102

The corporation does not anticipate any significant non-performance by counterparties because all counterparties are rated Aa2 or higher, as rated by Moody's Investors Service (Moody's). The largest cumulative notional amount contracted with any institution as at March 31, 2011, was $350.0 million (2010 – $450.0 million) and the largest net fair value of contracts with any institution as at March 31, 2011, was $13.6 million (2010 – $17.5 million). The corporation mitigates the credit exposure on multiple derivative transactions by entering into master netting agreements with counterparties as outlined in Note 24. These agreements create the legal right of offset of exposure in the event of default.

Using reasonable possible alternative assumptions for valuing derivatives would not have a material effect on the corporation's financial position or earnings.

6. Loans receivable – net

The following table summarizes the contractual maturity and effective interest rates of the performing loans receivable as at March 31, 2011. The yields are computed on a weighted-average basis by amount and term. Floating-rate loans are linked to the bank prime rate and re-price with changes in the rate.

	Remaining term to maturity				
($ thousands)	Within 1 year	1 – 5 years	Over 5 years	2011	2010 Restated (Note 3)
Floating	$ 1,007,473	$ 12,762,603	$ 836,183	$ 14,606,259	$ 13,128,429
Yield	4.33%	3.93%	3.85%	3.95%	3.20%
Fixed	901,801	4,058,505	1,547,054	6,507,360	6,432,182
Yield	5.73%	5.64%	6.14%	5.77%	6.00%
Performing loans				21,113,619	19,560,611
Impaired loans				241,362	236,716
Deferred loan fees				(20,445)	(26,977)
Loans receivable – gross				21,334,536	19,770,350
Allowance for credit losses				(586,104)	(610,410)
Loans receivable – net				$ 20,748,432	$ 19,159,940

Management estimates that annually, over the next three years, 6.5% (2010 – 6.5%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2011, $57.5 million (2010 – $64.9 million) of loans receivable were denominated in United States dollars (USD).

Concentrations of credit risk

The concentrations of performing loans and impaired loans by business line, enterprise and geographic area are as follows:

($ thousands)	Primary production financing	Agribusiness and agri-food financing	Alliances	2011	2010 Restated (Note 3)
Performing loans – Enterprise distribution					
Cash crops	$ 7,013,259	$ 263,679	$ 291,968	$ 7,568,906	$ 6,973,079
Dairy	4,520,005	4,507	40,274	4,564,786	4,374,364
Value-added	186,478	2,227,231	46,165	2,459,874	2,312,794
Other	2,338,055	57,986	26,758	2,422,799	1,865,483
Beef	1,211,437	33,294	300,337	1,545,068	1,522,184
Poultry	1,413,117	58,031	1,253	1,472,401	1,372,485
Hogs	1,008,200	60,352	11,233	1,079,785	1,140,222
Performing loans	$ 17,690,551	$ 2,705,080	$ 717,988	$ 21,113,619	$ 19,560,611
Performing loans – Geographic distribution					
Western	$ 5,331,936	$ 786,389	$ 311,112	$ 6,429,437	$ 5,940,816
Prairie	4,201,449	483,972	250,768	4,936,189	4,527,475
Ontario	5,546,452	676,077	135,446	6,357,975	6,038,210
Quebec	1,856,615	570,682	19,297	2,446,594	2,191,470
Atlantic	754,099	187,960	1,365	943,424	862,640
Performing loans	$ 17,690,551	$ 2,705,080	$ 717,988	$ 21,113,619	$ 19,560,611
Impaired loans – Enterprise distribution					
Cash crops	$ 69,378	$ 2,216	$ 6,160	$ 77,754	$ 40,520
Dairy	11,954	–	18	11,972	5,109
Value-added	5,440	39,974	–	45,414	49,916
Other	36,830	423	99	37,352	42,853
Beef	25,643	–	1,219	26,862	29,389
Poultry	4,341	–	–	4,341	13,550
Hogs	28,590	9,077	–	37,667	55,379
Impaired loans	182,176	51,690	7,496	241,362	236,716
Specific allowance (Note 8)	(58,186)	(22,894)	(7,380)	(88,460)	(88,065)
Net impaired loans	$ 123,990	$ 28,796	$ 116	$ 152,902	$ 148,651
Impaired loans – Geographic distribution					
Western	$ 83,266	$ 15,748	$ 3,702	$ 102,716	$ 86,702
Prairie	43,302	18,068	65	61,435	64,879
Ontario	13,293	4,352	2,109	19,754	41,252
Quebec	22,193	2,964	1,466	26,623	17,209
Atlantic	20,122	10,558	154	30,834	26,674
Impaired loans	182,176	51,690	7,496	241,362	236,716
Specific allowance (Note 8)	(58,186)	(22,894)	(7,380)	(88,460)	(88,065)
Net impaired loans	$ 123,990	$ 28,796	$ 116	$ 152,902	$ 148,651

7. Finance leases receivable – net

($ thousands)	2011	2010
Total minimum finance lease payments receivable		
2010-11	$ –	$ 1,351
2011-12	2,105	894
2012-13	1,316	482
2013-14	887	247
2014-15	698	233
2015 and beyond	431	–
Unearned finance income	(441)	(325)
Finance leases receivable – gross	4,996	2,882
Allowance for credit losses	(84)	(55)
Finance leases receivable – net	$ 4,912	$ 2,827

The company retains as collateral a security interest in the equipment associated with finance leases. The maximum term for finance leases receivable is five years.

8. Allowance for credit losses

($ thousands)	Loans receivable	Finance leases receivable	2011	2010
Balance, beginning of year	$ 610,410	$ 55	$ 610,465	$ 558,988
Provision for credit losses	27,903	29	27,932	91,402
Losses covered under HILLRP	(631)	–	(631)	6,153
Losses incurred on loan restructuring	–	–	–	(2,111)
Adjustment for loans no longer impaired	6,470	–	6,470	–
Writeoffs	(58,760)	–	(58,760)	(44,619)
Recoveries	712	–	712	652
Balance, end of year	$ 586,104	$ 84	$ 586,188	$ 610,465
Specific allowance	$ 88,460	$ –	$ 88,460	$ 88,065
General allowance	497,644	84	497,728	522,400
Balance, end of year	$ 586,104	$ 84	$ 586,188	$ 610,465

9. Venture capital investments

($ thousands)	2011	2010
Avrio Fund investments	$ 39,305	$ 28,942
FCC Fund investment – significant influence	9,586	7,973
FCC Fund investments designated as HFT	9,133	23,072
	$ 58,024	$ 59,987

Carrying value by type of investment

($ thousands)		2011		2010
Preferred shares	$	**25,641**	$	20,766
Common shares		**18,090**		25,721
Debt		**14,293**		13,500
	$	**58,024**	$	59,987

The venture capital investment portfolio exposes the corporation to credit risk. Venture capital investments are typically secured only by a general security agreement, assignment of life insurance proceeds and personal guarantees, which makes the measurement of the fair value of collateral held impracticable. As at March 31, 2011, the gross amount of venture capital debt investments that was in arrears was $0.1 million (2010 – $5.5 million), and renegotiated venture capital investments that would otherwise be in arrears was $4.4 million (2010 – $0.3 million).

Concentrations of venture capital investments by sector

($ thousands)		2011		2010
Food processing and manufacturing	$	**20,122**	$	26,828
Agriculture biotechnology		**19,383**		19,053
Bio-based fuels and chemicals		**18,519**		14,106
	$	**58,024**	$	59,987

As at March 31, 2011, the total amount of net gains (losses) realized on disposal and reported in the fair value adjustment was $2.2 million (2010 – $(0.8) million) and the total amount of net unrealized losses reported in the fair value adjustment was $3.4 million (2010 – $3.2 million).

The total amount of fees, interest and dividends recorded in net income during the year for venture capital investments recognized at fair value was $1.4 million (2010 – $3.3 million). The total net income recorded in net income for the venture capital investment subject to the corporation's significant influence during the year was $3.0 million (2010 – $0.2 million).

In addition to the above investments, the corporation has loans receivable from venture capital investees in the amount of $35.8 million (2010 – $47.3 million) and guarantees from venture capital investees in the amount of $7.7 million (2010 – $12.7 million).

Using reasonable possible alternative assumptions for valuing venture capital investments that are measured at fair value would not have a material effect on the corporation's financial position or earnings.

10. Equipment and leasehold improvements

($ thousands)		Cost		Accumulated amortization		2011 Net book value		2010 Net book value
Leasehold improvements	$	**41,131**	$	**21,906**	$	**19,225**	$	19,431
Office equipment and furniture		**26,775**		**19,384**		**7,391**		8,659
Computer equipment		**11,550**		**8,852**		**2,698**		3,423
	$	**79,456**	$	**50,142**	$	**29,314**	$	31,513

The total amount of amortization of equipment and leasehold improvements recorded in administration expenses during the year was $10.8 million (2010 – $9.9 million).

11. Computer software

($ thousands)	Cost	Accumulated amortization	2011 Net book value	2010 Net book value
Software	$ 104,045	$ 61,921	$ 42,124	$ 42,814

Software of $1.9 million (2010 – $1.7 million) was acquired and $12.7 million (2010 – $17.1 million) was internally developed during the year. The total amount of amortization of computer software recorded in administration expenses during the year was $15.3 million (2010 – $9.9 million).

12. Equipment under operating leases

($ thousands)	Cost	Accumulated amortization	2011 Net book value	2010 Net book value
Equipment	$ 25,296	$ 6,219	$ 19,077	$ 14,867

The total amount of amortization of equipment under operating leases recorded in interest income during the year was $3.7 million (2010 – $2.2 million).

The initial lease terms of operating leases range from two to five years. Future rental payments to be received from operating leases are as follows:

($ thousands)	2011	2010
2010-11	$ –	$ 3,056
2011-12	4,164	2,577
2012-13	3,345	2,053
2013-14	2,774	1,600
2014-15	1,798	242
2015 and beyond	256	–
	$ 12,337	$ 9,528

13. Other assets

($ thousands)	2011	2010
Accrued benefit assets (Note 14)	$ 46,177	$ 33,915
Insurance reserve assets	15,014	11,985
Real estate property held for sale	859	834
Other	39	57
	$ 62,089	$ 46,791

14. Employee future benefits

Financial position of benefit plans

The corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuations of the pension plans for funding purposes were prepared as at December 31, 2010. The next valuations for funding purposes will be as at December 31, 2011.

($ thousands)	2011 Pension benefits	2010 Pension benefits	2011 Other benefits	2010 Other benefits
Change in accrued benefit obligation				
Accrued benefit obligation, beginning of year	$ 317,978	$ 262,880	$ 40,862	$ 27,095
Current service cost	12,814	9,672	2,837	1,850
Interest cost on benefit obligation	19,843	17,703	2,596	1,857
Contributions by employees	4,031	4,013	–	–
Benefits paid	(8,391)	(6,935)	(813)	(489)
Actuarial loss	38,068	30,645	6,980	10,549
Accrued benefit obligation, end of year	384,343	317,978	52,462	40,862
Change in fair value of plan assets				
Fair value of plan assets, beginning of year	289,480	235,798	–	–
Actual return on plan assets	24,941	32,753	–	–
Contributions by corporation	17,268	23,617	813	–
Contributions by employees	4,031	4,013	–	–
Benefits paid	(8,156)	(6,701)	(813)	–
Fair value of plan assets, end of year	327,564	289,480	–	–
Funded status – plan deficit	(56,779)	(28,498)	(52,462)	(40,862)
Unamortized past service cost	1,132	1,257	17	21
Unamortized net actuarial loss	88,360	57,679	12,586	5,717
Contributions by corporation after December 31	13,464	3,477	–	–
Accrued benefit assets (liabilities), end of year	$ 46,177 (a)	$ 33,915 (a)	$ (39,859) (b)	$ (35,124) (b)

(a) Recorded in other assets.
(b) Recorded in other liabilities.

Plans with accrued benefit obligations in excess of plan assets

($ thousands)	2011 Pension benefits	2010 Pension benefits	2011 Other benefits	2010 Other benefits
Accrued benefit obligation	$ 359,240	$ 295,988	$ 52,462	$ 40,862
Fair value of plan assets	302,419	264,442	–	–
Funded status – plan deficit	$ (56,821)	$ (31,546)	$ (52,462)	$ (40,862)

Defined benefit costs

($ thousands)	2011 Pension benefits	2010 Pension benefits	2011 Other benefits	2010 Other benefits
Defined benefit costs				
Current service cost	$ 12,814	$ 9,672	$ 2,837	$ 1,850
Interest cost on benefit obligation	19,843	17,703	2,596	1,857
Actual return on plan assets	(24,941)	(32,753)	–	–
Actuarial loss	38,068	30,645	6,980	10,549
Costs arising in period	45,784	25,267	12,413	14,256
Adjustments for difference between costs arising in period and costs recognized in period				
Return on plan assets	4,743 (a)	16,269 (a)	–	–
Actuarial loss	(35,424) (b)	(28,654) (b)	(6,869) (c)	(10,837) (c)
Past service cost	125	125	4	4
Defined benefit costs recognized	$ 15,228	$ 13,007	$ 5,548	$ 3,423

(a) Expected return on plan assets of $(20,198) [2010 – $(16,484)] less the actual return on plan assets of $(24,941) [2010 – $(32,753)] = $4,743 [2010 – $16,269].

(b) Actuarial loss recognized for year of $2,644 [2010 – $1,991] less actual actuarial loss on accrued benefit obligation for year of $38,068 [2010 – $30,645] = $(35,424) [2010 – $(28,654)].

(c) Actuarial loss (gain) recognized for year of $111 [2010 – $(288)] less actual actuarial loss on accrued benefit obligation for year of $6,980 [2010 – $10,549] = $(6,869) [2010 – $(10,837)].

Significant assumptions

The significant assumptions used are as follows (weighted-average):

	2011 Pension benefits	2010 Pension benefits	2011 Other benefits	2010 Other benefits
Accrued benefit obligation as at December 31				
Discount rate	5.25%	6.00%	5.25%	6.00%
Rate of compensation increase	5.50%	5.50%	5.50%	5.50%
Defined benefit costs for year ended December 31				
Discount rate	6.00%	6.50%	6.00%	6.50%
Expected long-term rate of return on plan assets	7.00/3.75% (a)	7.00/3.75% (a)	–	–
Rate of compensation increase	5.50%	5.50%	5.50%	5.50%

(a) Registered pension plan/supplemental plans, respectively.

Assumed health care cost trend rates are as follows:

	2011	2010
Extended health care and dental care cost escalation		
Initial rate	9.00%	9.00%
Ultimate rate	5.00%	5.00%
Year ultimate rate reached	2020	2020

Sensitivity analysis

The impact of changing the key weighted-average economic assumptions used in measuring the pension and other benefit costs are as follows:

($ thousands)	Pension benefits	Other benefits
1% decrease in expected long-term rate of return on assets		
Net benefit cost	$ 3,070	$ –
1% decrease in discount rate		
Total of service and interest costs	5,068	1,380
Accrued benefit obligation	81,568	11,931
0.25% increase in rate of increase of future compensation		
Total of service and interest costs	585	30
Accrued benefit obligation	3,758	191
Assumed overall health care cost trend rates on aggregate of service and interest cost components for period		
Impact of: 1% increase	–	1,184
1% decrease	–	(869)
Assumed overall health care cost trend rates on accrued benefit obligation		
Impact of: 1% increase	–	9,499
1% decrease	–	(7,174)

Plan assets

The percentages of plan assets based on market values at the most recent actuarial valuation are as follows:

	2011	2010
Equity securities	66.0%	63.0%
Debt securities	32.1%	33.9%
Other	1.9%	3.1%
	100.0%	100.0%

Defined contribution plans

The cost of the defined contribution plans are recorded based on the contributions in the current year and are included in administration expenses. For the year ended March 31, 2011, the expense was $3.8 million (2010 – $3.9 million).

Total cash payments

Total cash payments for employee future benefits, consisting of cash contributed by the corporation to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans and cash contributed to its defined contribution plan, were $32.5 million (2010 – $29.6 million).

Total cash payments for employee future benefits for 2012, as described in the preceding paragraph, are anticipated to be approximately $20.6 million.

15. Borrowings

Short-term debt

($ thousands)	2011	2010
Government of Canada debt	$ 7,609,397	$ 8,512,931
Retail and institutional notes	363,281	232,708
Promissory notes	57,242	64,768
	$ 8,029,920	$ 8,810,407

Government of Canada debt

($ thousands)	2011	2010
Floating-rate borrowings	$ 4,586,281	$ 2,403,198
Fixed-rate borrowings	3,023,116	6,109,733
	$ 7,609,397	$ 8,512,931

Retail and institutional notes

($ thousands)	2011	2010
Fixed-rate notes	$ 363,281	$ 232,708

Short-term debt by currency

($ thousands)	2011	2010
Canadian dollars	$ 7,972,678	$ 8,745,639
United States dollars (1)	57,242	64,768
	$ 8,029,920	$ 8,810,407

(1) $58.9 million USD (2010 – $63.8 million USD).

Short-term debt by final maturity date and yield

($ thousands)	From 0 – 3 months	From 4 – 6 months	From 7 – 9 months	From 10 – 12 months	2011	2010
Government of Canada						
Carrying value	$ 5,032,054	$ 731,410	$ 770,667	$ 1,075,266	$ 7,609,397	$ 8,512,931
Yield	1.05%	0.99%	0.94%	0.92%		
Capital markets						
Carrying value	199,489	34,848	–	186,186	420,523	297,476
Yield	2.84%	4.56%	–	4.16%		
	$ 5,231,543	$ 766,258	$ 770,667	$ 1,261,452	$ 8,029,920	$ 8,810,407

The corporation has a demand operating line of credit, which provides overdraft protection in the amount of $30.0 million (2010 – $30.0 million). Indebtedness under this agreement is unsecured and this credit facility does not expire. Any draws made throughout the year on this facility are reversed the next day. As at March 31, 2011, there were no draws on this facility (2010 – nil).

Amounts denominated in foreign currencies have been translated into Canadian dollars at rates prevailing at the balance sheet date.

Long-term debt

($ thousands)	2011	2010
Government of Canada debt	$ 10,049,888	$ 7,481,354
Retail and institutional notes	865,983	1,440,910
Structured notes	6,128	26,500
	$ 10,921,999	$ 8,948,764

Government of Canada debt

($ thousands)	2011	2010
Floating-rate borrowings	$ 8,492,505	$ 5,561,716
Fixed-rate borrowings	1,557,383	1,919,638
	$ 10,049,888	$ 7,481,354

Retail and institutional notes

($ thousands)	2011	2010
Fixed-rate notes	$ 445,287	$ 814,765
Floating-rate notes	420,696	626,145
	$ 865,983	$ 1,440,910

Structured notes

($ thousands)	2011	2010
Double-up coupon	$ 5,861	$ 6,179
Index-linked notes	267	276
Dual currency notes	–	11,768
Reverse floating-rate note	–	8,277
	$ 6,128	$ 26,500

The redemption of structured notes is controllable by the corporation. At the inception of a structured note, derivative swap agreements are entered into concurrently to economically hedge the embedded interest rate and currency exposure. In practice, the corporation will only redeem a structured note if the swap counterparty exercises its right to terminate the related derivative swap agreement. These derivative contracts ensure that the corporation will receive proceeds from the swap to meet the requirements of servicing and settling the debt obligation. The corporation has in substance created floating-rate debt by issuing notes at fixed rates and entering into swap contracts whereby the corporation receives fixed-rate interest and pays floating-rate interest, and vice versa. In swapping out of the underlying note issue, the potential market risk has been converted to credit risk. Credit exposure on derivative financial instruments is further discussed in Note 24.

The amount the corporation is contractually required to pay on structured notes at maturity is $5.2 million, a $0.8-million difference from its carrying value. The fair value change in structured notes attributable to changes in the corporation's credit risk in the current year is $0.3 million and cumulatively, measured from the later of April 1, 2007 or the initial recognition of the structured notes, is $0.2 million. The change in fair value attributable to changes in the corporation's credit risk has been calculated by using the Government of Canada Agency Curve as a proxy for the credit risk of the corporation. Using reasonable possible alternative assumptions for valuing structured notes would not have a material effect on the corporation's financial position or earnings.

Long-term debt by currency

($ thousands)	2011	2010
Canadian dollars	$ 10,921,999	$ 8,928,719
Japanese yen (1)	–	20,045
	$ 10,921,999	$ 8,948,764

(1) ¥0 billion JPY (2010 – ¥1.9 billion JPY).

Long-term debt by final maturity date and yield

($ thousands)	From 1 – 2 years	From 2 – 3 years	From 3 – 4 years	From 4 – 5 years	Over 5 years	2011	2010
Government of Canada							
Carrying value	$ 3,370,598	$ 3,180,427	$ 2,570,992	$ 700,936	$ 226,935	$ 10,049,888	$ 7,481,354
Yield	1.22%	1.23%	0.99%	1.39%	2.73%		
Capital Markets							
Carrying value	244,625	152,273	–	107,951	367,262	872,111	1,467,410
Yield	4.15%	4.37%	–	4.37%	4.35%		
	$ 3,615,223	$ 3,332,700	$ 2,570,992	$ 808,887	$ 594,197	$ 10,921,999	$ 8,948,764

16. Other liabilities

($ thousands)	2011	2010 Restated (Note 3)
Transition loan liabilities	$ 84,245	$ 83,182
Accrued benefit liability – other benefits (Note 14)	39,859	35,124
Reserve for insurance claims	6,970	4,412
Deferred revenues	2,212	2,201
Other	842	1,720
	$ 134,128	$ 126,639

17. Net interest income

($ thousands)	2011	2010
Interest income		
Loans and receivables	$ 918,127	$ 795,604
Transfer of net realized gains on derivatives designated as cash flow hedges from AOCI to net income	21,060	16,896
Temporary investments designated as AFS	7,964	2,369
Venture capital investments designated as HFT	881	2,103
Operating leases	711	414
Other venture capital investments	687	1,397
Finance leases	199	85
Foreign exchange loss on loans and receivables	(2,979)	(15,539)
Total interest income	946,650	803,329
Interest expense		
Long-term borrowings classified as other liabilities	206,163	244,897
Short-term borrowings classified as other liabilities	31,265	12,691
Borrowings designated as HFT	531	1,726
Derivative assets and liabilities designated as HFT (net)	(233)	(1,317)
Foreign exchange gain on short-term borrowings classified as other liabilities (net)	(3,026)	(15,374)
Hedging derivative assets and liabilities designated as cash flow hedges (net)	(26,544)	(49,173)
Total interest expense	208,156	193,450
Net interest income	$ 738,494	$ 609,879

The total net fee income (expense) that is recognized immediately in net interest income arising from financial assets and liabilities not classified as held for trading is $1.9 million (2010 – $(1.3) million).

18. Administration expenses

($ thousands)	2011	2010
Personnel	$ 160,575	$ 156,515
Facilities, software and equipment	47,053	39,667
Professional fees	30,540	29,616
Travel and training	14,306	13,044
Marketing and promotion	9,461	9,669
Other	8,866	6,654
	$ 270,801	$ 255,165

19. Fair value adjustment

($ thousands)	2011	2010
Ineffectiveness of cash flow hedges	$ 3,987	$ 11,541
Derivative assets and liabilities designated as HFT	2,936	(10,809)
Guarantees	87	(22)
Venture capital investments designated as HFT	(336)	158
Other venture capital investments held at fair value	(820)	(4,186)
Long-term debt designated as HFT	(2,408)	9,886
	$ 3,446	$ 6,568

20. Fair value of financial instruments

Financial instruments carried at fair value

The corporation follows a three-level fair value hierarchy to categorize the inputs used to measure fair value. Level 1 is based on quoted prices in active markets, Level 2 incorporates models using inputs other than quoted prices and Level 3 incorporates models using inputs that are not based on observable market data. Details of the valuation methodologies applied and assumptions used in determining fair value are provided in Note 2.

Valuation hierarchy

The following tables categorize the inputs used in the valuation of financial instruments carried at fair value:

	2011			
($ thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Temporary investments	$ –	$ 284,162	$ –	$ 284,162
Derivative assets	–	46,483	924	47,407
FCC Fund venture capital investments	78	–	9,055	9,133
Avrio Fund venture capital investments	1,800	–	37,505	39,305
	$ 1,878	$ 330,645	$ 47,484	$ 380,007
Liabilities				
Derivative liabilities	$ –	$ 4,724	$ –	$ 4,724
Structured notes	–	–	6,128	6,128
	$ –	$ 4,724	$ 6,128	$ 10,852

	2010			
($ thousands)	Level 1	Level 2	Level 3	Total
Assets				
Temporary investments	$ –	$ 199,818	$ –	$ 199,818
Derivative assets	–	65,585	1,360	66,945
FCC Fund venture capital investments	204	–	22,868	23,072
Avrio Fund venture capital investments	1,900	–	27,042	28,942
	$ 2,104	$ 265,403	$ 51,270	$ 318,777
Liabilities				
Derivative liabilities	$ –	$ 4,591	$ 2,252	$ 6,843
Structured notes	–	–	26,500	26,500
	$ –	$ 4,591	$ 28,752	$ 33,343

Level 3 financial instruments

The following tables summarize the fair value and other changes to financial instruments included in the Level 3 valuation hierarchy that occurred during the year. There have been no transfers between Level 1 and Level 2 during the current fiscal year.

	2011				
($ thousands)	Derivative assets and liabilities	FCC Fund venture capital investments	Avrio Fund venture capital investments	Structured notes	Total
Balance, beginning of year	$ (892)	$ 22,868	$ 27,042	$ (26,500)	$ 22,518
Total gains (losses) recognized in fair value adjustment (1)	1,897	(212)	(720)	(2,408)	(1,443)
Change in accrued interest	(81)	(520)	247	76	(278)
Acquisitions	–	–	10,936	–	10,936
Repayments	–	(13,081)	–	22,704	9,623
Balance, end of year	$ 924	$ 9,055	$ 37,505	$ (6,128)	$ 41,356

(1) Net unrealized losses relating to instruments still held at the reporting date recognized in the fair value adjustment amount to $2.2 million.

	2010				
($ thousands)	Derivative assets and liabilities	FCC Fund venture capital investments	Avrio Fund venture capital investments	Structured notes	Total
Balance, beginning of year	$ 11,634	$ 30,838	$ 22,236	$ (241,018)	$ (176,310)
Total (losses) gains recognized in fair value adjustment (1)	(10,538)	734	(4,186)	(9,886)	(23,876)
Change in accrued interest	(1,988)	(302)	(120)	–	(2,410)
Acquisitions	–	290	9,112	–	9,402
Repayments	–	(8,692)	–	224,404	215,712
Balance, end of year	$ (892)	$ 22,868	$ 27,042	$ (26,500)	$ 22,518

(1) Net unrealized gains relating to instruments still held at the reporting date recognized in the fair value adjustment amount to $1.9 million.

Financial instruments not carried at fair value

The estimated fair value of the corporation's financial instruments that do not approximate carrying values in the financial statements, using methods and assumptions described below, are as follows:

	2011		2010 Restated (Note 3)	
($ thousands)	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Assets				
Loans receivable – net	$ 20,748,432	$ 20,930,067	$ 19,159,940	$ 19,358,250
Finance leases receivable – net	4,912	4,942	2,827	2,852
Venture capital investments – significant influence	9,586	23,215	7,973	15,181
Liabilities				
Long-term debt excluding structured notes	10,915,871	10,998,293	8,922,264	9,021,227

The estimated fair value for the performing fixed-rate loans receivable is calculated by discounting the expected future cash flows at year-end market interest rates for equivalent terms to maturity. The estimated fair value for the performing variable-rate loans receivable is assumed to equal carrying value. The general component of the allowance for credit losses related to loans receivable is subtracted from the estimated fair value of the performing loans receivable. The estimated fair value of the impaired loans receivable is equal to their net realizable value, which is calculated by subtracting the specific component of the allowance for credit losses from the book value of the impaired loans receivable.

The estimated fair value for the finance leases receivable is calculated by discounting the expected future cash flows at year-end market interest rates for equivalent terms to maturity. The general component of the allowance for credit losses related to finance leases receivable is subtracted from the estimated fair value of the finance leases receivable.

Venture capital investments in shares of privately held companies under significant influence are valued based on guidelines issued by the venture capital industry, using market-based valuation methodologies. Estimated fair value for venture capital debt investments under significant influence is calculated by discounting contractual cash flows at interest rates prevailing at year-end with equivalent terms to maturity.

Estimated fair value for long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity, or by utilizing quoted market prices where available.

For all other financial instruments carried at amortized cost, the carrying value is assumed to approximate fair value due to the relatively short period to maturity of these instruments. This applies to cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, other assets, short-term debt and other liabilities.

21. Commitments, guarantees and contingent liabilities

Loan and venture capital commitments

As at March 31, 2011, loans approved but undisbursed amounted to $2,821.8 million (2010 – $2,720.9 million). These loans were approved at an average interest rate of 4.25% (2010 – 3.56%) and do not form part of the loans receivable balance until disbursed. As many of these loan approvals will expire or terminate without being drawn upon, the contract amounts do not necessarily represent future cash requirements. These outstanding commitments do not generate liquidity risk to the corporation because it has sufficient funds available from the Government of Canada to meet its future cash requirements. The Government of Canada makes short-term and long-term funding available to the corporation through the Crown Borrowing Program. As at March 31, 2011, the corporation did not have any venture capital investments that were approved but undisbursed (2010 – nil).

Operating commitments

Future minimum payments by fiscal year on technology services and operating leases are due as follows:

($ thousands)		
Amounts due		
Within 1 year	$	23,591
From 1 – 2 years		14,164
From 2 – 3 years		12,613
From 3 – 4 years		8,283
From 4 – 5 years		3,855
Over 5 years		5,837
	$	68,343

Guarantees

In the normal course of its business, the corporation issues guarantees in the form of letters of credit that represent an obligation to make payments to third parties on behalf of its customers if customers are unable to make the required payments or meet other contractual obligations. The maximum amount potentially payable as at March 31, 2011, is $2.5 million (2010 – $3.7 million). In the event of a call on these letters of credit, the corporation has recourse in the form of security against its customers for amounts to be paid to the third party. Existing items will expire within three years, usually without being drawn upon. As at March 31, 2011, the amount recorded in other liabilities for these letters of credit was nil (2010 – $0.1 million).

Contingent liabilities

Various legal proceedings arising from the normal course of business are pending against the corporation. No amount has been included in the consolidated financial statements as at March 31, 2011, for these contingent liabilities as management does not expect the outcome to have a significant effect on the financial statements.

In the normal course of operations, the corporation enters into agreements that provide general indemnification. These indemnifications typically occur in service contracts and strategic alliance agreements, and in certain circumstances may require that the corporation compensate the counterparty to the agreement for various costs resulting from breaches of representations or obligations. The corporation also indemnifies directors, officers and employees, to the extent permitted by law and the corporation's governing legislation, against certain claims that may be made against them as a result of their being directors, officers or employees. The terms of these indemnifications vary, thus the corporation is unable to determine a reasonable estimate of the maximum potential amount the corporation could be required to pay to counterparties. Historically, the corporation has not made any payments under such indemnifications. No amount has been included in the consolidated financial statements as at March 31, 2011, for these indemnifications.

22. Related party transactions

The corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. Transactions with these entities were entered into in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Items included in the consolidated financial statements are as follows:

($ thousands)	2011	2010
Loans receivable	$ 10	$ –
Accounts payable	265	56
Short-term debt	7,609,397	8,512,930
Long-term debt	10,049,888	7,481,354
Interest income	66	–
Interest expense	155,800	89,643
Provision for credit losses	631	6,153
Administration expenses	5,913	5,355
Dividend	18,500	18,600

The Government of Canada guarantees the borrowings of the corporation.

The corporation enters into certain loans with customers whereby the Government of Canada subsidizes the total interest due on the respective loans for an 18-month period. Accrued interest receivable and interest income on these loans is recorded in loans receivable and interest income, respectively.

The corporation enters into short-term and long-term borrowings with the Government of Canada through the Crown Borrowing Program. Interest accrued and incurred on these borrowings is recorded in accrued interest on borrowings and interest expense, respectively.

The corporation receives government assistance to share the credit losses on certain loans with the Government of Canada. The government assistance is recorded in provision for credit losses. The amount estimated to be returned to the Government of Canada is recorded in long-term debt as detailed in Note 2.

The corporation pays numerous other administrative business costs to Government of Canada departments, agencies and Crown corporations, which are included in administrative expenses. The balance outstanding at year-end related to these costs is included in accounts payable.

The corporation pays a dividend to the Government of Canada on an annual basis, as detailed in Note 23.

23. Capital management

The corporation's objectives when managing capital are:

- to generate a sufficient rate of return from operations to remain financially self-sustaining and to fund growth and strategic initiatives.
- to have the capability to withstand market fluctuations intrinsic to the agriculture industry while continuing to support its customers through all economic cycles.
- to comply with its external covenant imposed by the Farm Credit Canada Act that restricts the total direct and contingent liabilities of the corporation to 12 times its equity. This limit can be increased to 15 times its equity with the prior approval of the Governor-in-Council.

There has been no change to the corporation's objectives, policies or procedures for managing capital from the prior year.

The capital of the corporation consists of allowance for credit losses, contributed surplus, retained earnings and AOCI. One of the measures that the corporation reviews is the percentage of assets not requiring borrowings. The corporation's level of capitalization and the percentage of gross assets not requiring borrowings are as follows:

($ thousands)	2011	2010 Restated (Note 3)
Allowance for credit losses	$ 586,188	$ 610,465
Contributed surplus	547,725	547,725
Retained earnings	2,025,725	1,584,266
Accumulated other comprehensive income	181,804	203,603
Non-controlling interest in variable interest entity	13,376	9,461
Total capitalization	$ 3,354,818	$ 2,955,520
Gross assets	$ 22,496,245	$ 20,896,792
Capitalization as a percentage of gross assets	14.91%	14.14%

Limits on borrowing

As at March 31, 2011, the corporation's total direct and contingent liabilities were 7.4 times the shareholder's equity, excluding AOCI (2010 – 8.4 times the shareholder's equity, excluding AOCI), which was within the limit established by the Farm Credit Canada Act.

Contributed surplus

Contributed surplus of the corporation consists of capital contributions made by the Government of Canada net of the March 31, 1998, reallocation of $660.6 million to eliminate the corporation's accumulated deficit.

As of March 31, 2011, capital payments received from the Government of Canada amounted to $1,208.3 million (2010 – $1,208.3 million). The statutory limit for that same period was $1,250.0 million (2010 – $1,250.0 million).

Dividend

On August 18, 2010, the corporation's Board of Directors declared a dividend based on the results of the year ended March 31, 2010, in the amount of $18.5 million (2010 – $18.6 million based on the year ended March 31, 2009) to the corporation's shareholder, the Government of Canada, which was paid on March 16, 2011.

24. Risk management

Risk governance

The corporation has established a governance framework that includes a number of policies and committees to guide corporate decision-making. The Board of Directors provides oversight for this internal corporate governance framework. The committees are responsible for developing and monitoring aspects of the corporation's overall risk management policies, processes and practices. Internal committees report regularly through the CEO and the Executive Management Team (EMT) as required, or to the Board of Directors, most often through the Board of Directors' Audit Committee, Human Resources Committee and Corporate Governance Committee.

The Audit Committee assists the Board of Directors in fulfilling its responsibilities by ensuring management has identified key risks and has put in place policies, control systems and practices to manage these risks. The Audit Committee receives semi-annual reports from management outlining major risk areas and corresponding risk management measures implemented to provide assurance that the corporation is effectively managing risk.

Financial risk management

The corporation has identified the major categories of financial risk to which it is exposed as being credit risk and market risk.

a) Credit risk

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet its financial obligations to the corporation. Credit risk on loans is the most significant risk that the corporation faces.

Management of credit risk

The Board of Directors has overall responsibility for the management of credit risk and relies on a number of divisions and committees to effectively manage credit risk that impacts the corporation.

Portfolio and Credit Risk conducts industry, economic and portfolio analysis and reports to the various risk committees, including the Audit Committee. A number of areas within this division are involved in managing credit risk at the corporation. They include:

- Portfolio Analysis and Modelling is responsible for management, design and development of lending and credit risk-related models, lending scorecards and tools and makes recommendations to the Asset Liability Committee to ensure these models, scorecards and tools appropriately balance risk mitigation, growth and profitability.
- Credit Policy and Process Management is responsible for management of the corporation's credit policies and makes recommendations to the Credit Policy Committee to ensure there is an appropriate balance between risk mitigation, profitability and growth. It also reviews, enhances and clarifies credit policies and communicates policy changes to staff. Credit Policy and Process Management provides ongoing interpretation of policy in relation to general and specific lending situations.
- Credit Risk manages risk for larger loans as well as loans above established risk thresholds. It is responsible for credit-related delegation of authorities, credit education, coaching and credit authorization. Special Credit is a function within Credit Risk that manages and resolves higher-risk accounts experiencing challenges through intensive management of accounts, arrears collection and recovery actions.
- Corporate Credit is responsible for credit education, coaching and credit authorization for larger loan applications, including Credit Committee recommendations.
- Valuation researches land sales, maintains benchmark data on land values and appraises the value of the corporation's security with particular emphasis on specialized enterprises and agribusinesses.

Operations is delegated authorities over lending and is responsible for managing credit risk on loans in its portfolio. Authority is granted on the basis of credit training and demonstrated competence, and credit decisions are made at an authority level appropriate to the size and risk of each loan. The division monitors customer and loan performance throughout the life of the loan through ongoing account management as well as the account review process.

Treasury is responsible for managing counterparty credit risk related to derivative and investment activities. The division reviews counterparty credit rating actions and financial performance.

The following committees are involved in the management of credit risk at the corporation:

- Asset Liability Committee (ALCO) directs the asset/liability management function, including the establishment and maintenance of portfolio risk management policies and procedures, loan pricing direction, integration with corporate strategies and achievement of portfolio return targets.
- Credit Policy Committee oversees the development of lending policies and ensures they reflect the corporation's credit risk tolerance, industry best practices and compliance with federal, provincial and regional laws and regulations.
- Credit Committee reviews and makes lending decisions on loan applications in excess of prescribed limits.
- Venture Capital Investment Committee adjudicates investment recommendations and reviews the performance of FCC Fund venture capital investments.

Measurement of credit risk

Portfolio and Credit Risk assesses credit risk at the aggregate level, providing risk policies and assessment tools and models that quantify credit risk and allowance for credit losses. The division also monitors the agriculture and agri-food operating environments to ensure the corporation's lending policies, activities and prices are appropriate and relevant.

Policies, processes, systems and strategies are used to manage credit risk of the corporation's portfolio. Each year, Portfolio and Credit Risk presents a comprehensive portfolio vision that summarizes many of these tools, models and strategies to the Board of Directors for approval. Numeric targets associated with many of these tools are set annually to assist in achieving the portfolio vision.

Significant research, modelling, validation and interpretation are used to determine the targets for each tool as follows:

Economic capital

The corporation monitors available capital less credit economic capital requirements. Economic Capital models are widely used by financial institutions to measure loan portfolio risk, and are considered best practice by the International Association of Credit Portfolio Managers. The main benefits of an Economic Capital model are to:

- measure transaction, concentration and correlation risk
- stress test the loan portfolio to estimate losses with a certain level of probability
- measure trends over time
- allow for risk-adjusted comparisons of geographic areas and business lines

Portfolio diversification plan

The portfolio diversification plan outlines the desired range for portfolio composition in five years, including diversification across enterprises, geographical areas and business lines. The desired range is evaluated against other realistically achievable scenarios considering growth, profit, risk and market share impacts.

In addition, each year, the portfolio vision also establishes customer exposure limits and approval authorities.

Risk scoring and pricing system

The risk scoring and pricing system (RSPS) is used to rank risk for loans in the corporation's portfolio. Risk ranking is based on customer, loan and enterprise characteristics, and generates scores ranging from 400 to 999 points. Each score translates into a probability of default. The higher the score, the lower the probability of default. RSPS is also used to price loans.

RSPS scores are based on inputs that are categorized under four main themes:

- customer credit rating and historical payment performance
- customer financial ratios
- customer business experience
- customer primary enterprise

RSPS weights each characteristic differently to arrive at the final RSPS score. These weightings are based on the corporation's historical experience and are set with the objective to maximize the system's ability to predict probability of default.

The target risk score for the corporation's portfolio for new lending is 770. The portfolio's current risk score for new lending is 803 (2010 – 781) and the portfolio's overall risk score is 803 (2010 – 800).

Loan loss model

The loan loss model estimates the losses within the portfolio due to credit risk. There are two components to the loan loss model: specific and general. The specific loan losses are determined for non-performing loans that have met both of the following criteria:

- greater than $500 in arrears for 90 days or more
- security insufficient to fully recover amounts outstanding

General loan losses are calculated losses on loans within the portfolio that have met at least one of three indicators of impairment:

- arrears of $500 or greater but not more than 90 days
- an adjustment to the terms of the loan in the past year
- a drop in the RSPS risk score of 15 or more points in the past year

The general allowance is also based on those losses that have been incurred but have not yet exhibited evidence of the loss. Based on historical experience, there is an emergence period of when impairment occurs to when it becomes evident in the portfolio. From the emergence period, migration rates are used to determine incurred losses within the portfolio that are not yet evident. For all components of the loss model, the model considers the security position to estimate the appropriate amount of loss allowance.

On a monthly basis, ALCO is provided with a report that illustrates various measures of the loan portfolio's credit risk on an overall basis, by industry enterprise and by business line. Macro measures that demonstrate the health of the portfolio are as follows:

	2011	2010
Weighted-average loan-to-security ratio for secured portfolio	**57.8%**	57.6%
Unsecured portfolio as a percentage of total owing	**2.3%**	2.6%
Arrears as a percentage of total owing	**2.1%**	2.5%
Portfolio adjusted over past 12 months as a percentage of total owing	**5.8%**	4.2%

Collateral

The corporation mitigates its credit risk by employing policies and practices in terms of collateral requirements. Credit policy establishes collateral guidelines and standards. The corporation monitors the portfolio by reviewing the loan-to-security ratio, both on an overall portfolio basis and by enterprise. Upon initial recognition of a loan, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets at intervals prescribed by policy. The form of collateral obtained is generally real estate, quotas or equipment, depending on the purpose of the loan.

Loan commitments

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk, the corporation is potentially exposed to loss in an amount equal to the total unused commitments. See Note 21 for further details regarding the corporation's loan commitments.

Maximum exposure to credit risk before collateral held or other credit enhancements

($ thousands)	**2011**	2010 Restated (Note 3)
On-balance sheet assets		
Temporary investments	**$ 284,162**	$ 199,818
Accounts receivable	**12,676**	32,802
Derivative assets	**47,407**	66,945
Loans receivable	**20,748,432**	19,159,940
Finance leases receivable	**4,912**	2,827
Venture capital investments	**58,024**	59,987
Other assets	**3,651**	3,226
Off-balance sheet assets		
Financial guarantees	**2,513**	3,703
Loan commitments	**2,821,811**	2,720,946
	$ 23,983,588	$ 22,250,194

The preceding table represents a worst-case scenario of credit risk exposure to the corporation at the end of the year, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out are based on net carrying amounts as reported in the balance sheet. For off-balance sheet items, the exposure is based upon the maximum amount that the corporation would have to pay if the item was called upon.

Loans receivable

Loans receivable in arrears but not impaired

A loan is considered to be in arrears when a customer has not made a payment by the contractual due date and the amount owing is greater than $500, with the exception of loans that have matured and were current with their payments on the maturity date. Loans less than 90 days in arrears are not considered impaired, unless other information is available to the contrary. As well, loans in arrears are not considered impaired if there is adequate security and collection efforts are reasonably expected to result in full repayment. The longer that the customer is in arrears and interest continues to accrue, the greater the risk that the recoverable amount from the security value is less than the carrying amount of the loan. Gross amounts of loans that were in arrears but not impaired were as follows:

($ thousands)	2011	2010
In arrears but not impaired		
Up to 30 days	$ **72,472**	$ 74,278
31 – 60 days	**90,864**	102,277
61 – 89 days	**62,339**	48,531
90 days or more	**91,106**	118,213
	$ **316,781**	$ 343,299

Loans receivable neither in arrears nor impaired

The credit quality of loans that were neither in arrears nor impaired can be assessed by reference to the corporation's RSPS scores. Total owing for each RSPS score bucket as a percentage of total owing that is neither in arrears nor impaired is as follows:

	2011	2010
RSPS score		
400 – 650	**1.1%**	1.3%
651 – 769	**18.7%**	20.4%
770 – 850	**61.6%**	59.5%
851 – 999	**18.6%**	18.8%
	100.0%	100.0%

The majority of the RSPS scores are updated on a monthly basis. For certain types of loans, different approval and credit management processes are used and these represent less than 1.0% of the corporation's total portfolio.

Renegotiated loans receivable

Renegotiating activities include payment schedule adjustments and deferred payment options. Renegotiated loans that would otherwise be in arrears or impaired are $1,247.2 million (2010 – $826.7 million).

Real estate property acquired

During 2011, the corporation acquired real estate property from customers in settlement of loan commitments with a carrying value of $2.2 million (2010 – $2.0 million). Real estate property acquired is sold as soon as practicable, with the proceeds used to reduce the outstanding customer loan balance.

Counterparty credit risk – derivatives and temporary investments

Credit risk arises from the potential for a counterparty to default on its contractual obligation to the corporation. To mitigate this risk, the corporation complies with the guidelines issued by the Minister of Finance by entering into derivatives with counterparties of high credit quality only, as determined by the published ratings of external credit rating agencies. Counterparty credit risk is managed via the corporation's Board-approved counterparty credit risk guidelines, which specify the maximum exposure that the corporation will accept for each level of credit rating.

In the normal course of business, the corporation receives collateral on certain transactions to reduce its exposure to counterparty credit risk. The corporation is normally permitted to sell, dispose, invest or re-pledge the collateral it receives under terms that are common and customary to standard derivative activities.

The counterparty derivative obligation may arise when market-related currency and interest factors change, resulting in unrealized gains to the corporation. These unrealized gains result in positive fair values for these derivative instruments. The corporation is not exposed to credit risk for the full notional amount of the derivative contracts, but only to the potential replacement cost if the counterparty defaults. Furthermore, standard credit mitigation via master netting agreements provided in the International Swap and Derivatives Association (ISDA) documentation provide for the simultaneous closeout and netting of positions with a counterparty in the event of default. Credit Support Annex (CSA) documentation is also in place with most of the corporation's counterparties. These agreements are addendums to existing ISDA documentation and further specify the conditions for providing the corporation with collateral in the event that the counterparty credit exposure exceeds an agreed threshold. For derivative transactions where a CSA is in place, the counterparty must have a minimum long-term credit rating of A- from two or more external credit rating agencies (Standard & Poor's, Moody's or DBRS). See Note 5 and Note 15 for the quantification of counterparty credit risk.

ALCO and the Board of Directors have established an investment policy that sets minimum credit ratings for temporary investments and limits the size and composition of the total investment portfolio. For temporary investment activity with term to maturity equal to or less than one year, counterparties must have a minimum short-term credit rating of A1+/R1-low/P-1 from two or more external credit rating agencies. The actual credit ratings will determine the maximum face amount of investments per counterparty.

The corporation has controls and policies in place to protect against and minimize loss due to counterparty default. The Treasury division reviews credit ratings and counterparty financial performance regularly and recommends policy changes to ALCO and the Board of Directors.

Venture capital debt investments

The corporation is exposed to credit risk through its venture capital debt investments. The corporation manages credit risk through thoughtful planning, strict investment criteria, significant due diligence of investment opportunities and by conducting activities in accordance with investment policies. The Investment Manager monitors and reports on the financial condition of investee companies regularly.

b) Market risk

Market risk is the potential for financial loss to the corporation as a result of adverse changes in underlying market factors, such as interest rates and foreign exchange rates associated with investments, and the corporation's exposure to liquidity risk.

The corporation has market risk policies and limits to ensure exposures to interest rate, foreign exchange and liquidity risks are identified, measured, managed and reported on a timely basis. Market risk policies are regularly reviewed by ALCO and are approved by the Board of Directors. The corporation's policies and processes are based on industry best practices and the *Minister of Finance Financial Risk Management Guidelines for Crown Corporations*. The Treasury division is responsible for implementing market risk management directives and reports regularly to ALCO and the Board of Directors on its activities and asset/liability position.

Interest rate risk

Interest rate risk is the risk that a change in interest rate adversely impacts the corporation's net interest income and economic value. Interest rate risk arises from interest rate mismatches between assets and liabilities and embedded options. Interest rate mismatches occur because of different maturity and re-pricing dates, residual assets funded by equity and different interest rate benchmarks for some assets and liabilities. Embedded options exist on fixed-rate loans that have principal deferral options, prepayment features and interest rate guarantees on loan commitments.

Exposure to interest rate risk is monitored primarily through an asset/liability model. Various scenarios are produced at least monthly to analyze the sensitivity of net interest income and market values to changes in interest rates and balance sheet assumptions. The asset/liability model is back-tested and validated to ensure that the logic and assumptions used in the model are reasonable when compared to actual results.

Interest rate risk management is governed by policy, which has defined limits based on the impact of a 2.0% change in interest rates. The defined limit for variability of net interest income is that for the next 12-month period, net interest income should not decline by more than 10.0%. The second defined limit is that the market value of portfolio equity should not decline by more than 10.0% of total equity (excluding accumulated other comprehensive income) for a 2.0% immediate and sustained change in the level and term structure of interest rates. Based on the corporation's financial position as at March 31, 2011, assuming an immediate and sustained 2.0% change in interest rates occurs across all maturities and curves, net interest income and the market value of portfolio equity would be affected over the next 12 months as follows:

	2011		2010	
	Impact of		Impact of	
($ thousands)	**2% increase**	**0.85% decrease (1)**	2% increase	0.25% decrease (1)
Net interest income variability	**$ 5,919**	**$ (2,674)**	$ 7,692	$ (1,013)
Limit	**78,922**	**(78,922)**	73,972	(73,972)
Market value of portfolio equity variability	**(188,100)**	**80,600**	(145,047)	18,668
Limit	**(257,344)**	**257,344**	(213,199)	213,199

(1) The lowest rate on the yield curves used in the model was 0.85% (2010 – 0.25%) to avoid using negative rates.

The corporation has a third defined limit that addresses its exposure to commitment risk. Commitment risk is the risk that interest rates rise after the corporation has committed to a lower interest rate to the customer. The policy states that the decline in the market value of the interest guarantees on new loans and renewals cannot exceed 0.5% of total equity (excluding accumulated other comprehensive income) for a 0.5% increase in rates. The net decrease in market value of undisbursed loans if there was a 0.5% rate increase was $2.5 million as at March 31, 2011 (2010 – $2.8 million), which was within the policy limit of $10.1 million (2010 – $10.7 million).

The following table summarizes the corporation's interest rate risk based on the gap between the carrying value of assets, and liabilities and equity, grouped by the earlier of contractual re-pricing or maturity dates and interest rate sensitivity. In the normal course of business, loan customers frequently prepay their loans in part or in full prior to the contractual maturity date.

($ thousands)	Immediately rate-sensitive	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest-sensitive	Total
Assets							
Cash and cash equivalents	$ –	$ 583,738	$ –	$ –	$ –	$ 18,102	$ 601,840
Yield (1)	–	1.08%	–	–	–	–	
Temporary investments	–	284,155	–	–	–	7	284,162
Yield (1)	–	1.12%	–	–	–	–	
Derivative assets (3)	–	–	–	–	–	47,407	47,407
Loans receivable – net	14,379,174	722,171	1,244,422	3,979,077	748,647	(325,059)	20,748,432
Yield (1)	3.91%	6.34%	5.90%	5.70%	6.10%	–	
Finance leases receivable – net	–	224	1,152	3,620	–	(84)	4,912
Yield (1)	–	5.78%	5.78%	5.78%	–	–	
Venture capital investments	2,377	93	1,985	9,098	–	44,471	58,024
Yield (1)	10.50%	20.00%	10.00%	10.65%	–	–	
Other	–	–	–	–	–	165,280	165,280
Total assets	$ 14,381,551	$ 1,590,381	$ 1,247,559	$ 3,991,795	$ 748,647	$ (49,876)	$ 21,910,057
Liabilities and equity							
Non-structured borrowings	$ –	$ 16,247,409	$ 329,967	$ 1,808,275	$ 512,371	$ 47,769	$ 18,945,791
Yield (1)	–	0.96%	3.49%	3.31%	4.12%	–	
Structured borrowings	–	–	–	5,186	–	942	6,128
Yield (1)	–	–	–	4.60%	–	–	
Total borrowings	–	16,247,409	329,967	1,813,461	512,371	48,711	18,951,919
Derivative liabilities (2)(3)	–	1,093,578	(350,000)	(446,278)	(297,300)	4,724	4,724
Yield (1)	–	1.22%	1.37%	2.34%	4.52%	–	
Other	–	–	–	–	–	198,160	198,160
Shareholder's equity	–	–	–	–	–	2,755,254	2,755,254
Total liabilities and equity	$ –	$ 17,340,987	$ (20,033)	$ 1,367,183	$ 215,071	$ 3,006,849	$ 21,910,057
Total gap 2011	$ 14,381,551	$(15,750,606)	$ 1,267,592	$ 2,624,612	$ 533,576	$ (3,056,725)	$ –
Total cumulative gap 2011	$ 14,381,551	$ (1,369,055)	$ (101,463)	$ 2,523,149	$ 3,056,725	$ –	$ –
Total gap 2010	$ 12,910,440	$(13,742,619)	$ 905,970	$ 2,115,636	$ 480,209	$ (2,669,636)	$ –
Total cumulative gap 2010	$ 12,910,440	$ (832,179)	$ 73,791	$ 2,189,427	$ 2,669,636	$ –	$ –

(1) Represents the weighted-average effective yield based on the earlier of contractual re-pricing or maturity date.

(2) Represents notional principal amounts on derivatives.

(3) The notionals for derivatives with a positive fair value have been netted against derivatives with a negative fair value and are included with derivative liabilities.

Foreign exchange risk

The corporation is exposed to foreign exchange risk due to differences in the amount and timing of foreign currency denominated asset and liability cash flows. The currency exposure is minimized by matching foreign currency loans against foreign currency funding. This risk cannot be perfectly hedged, because the assets are amortizing loans and the liabilities are discount bonds, which creates timing mismatches for the principal and interest cash flows.

The corporation's policy is to mitigate foreign exchange risk. All foreign currency borrowings are fully hedged at the time of issuance, unless the foreign currency denominated debt is used specifically to finance a like currency asset. The Board of Director's policy limit for the foreign currency funding to foreign currency asset hedge ratio is a range of 90% to 110%. The corporation's actual ratio as at March 31, 2011, is 98.4% (2010 – 99.0%).

Derivatives

The corporation uses derivatives to hedge interest rate and foreign exchange risk. Derivatives alter the risk profile of the balance sheet by reducing mismatches of assets and liabilities, while ensuring interest rate risk and foreign exchange risk are managed within policy limits.

When derivative transactions qualify for hedge accounting, derivatives are designated as cash flow hedges and are accounted for as described in Note 2. Derivative transactions that do not qualify for hedge accounting are still considered economic hedges. Economic hedges that do not qualify for hedge accounting may lead to net income volatility because the derivatives are recorded at fair value and this volatility may not be representative of the overall risk.

Liquidity risk

Liquidity risk is the risk that the corporation cannot meet a demand for cash or fund its obligations at a reasonable cost as they become due.

The corporation measures, forecasts and manages cash flow as an integral part of liquidity management. The corporation's objective is to maintain sufficient funds to meet customer and business operational requirements.

The corporation maintains liquidity through:

- a liquid investment portfolio – cash and cash equivalents, and temporary investments of $886.0 million were on hand as at March 31, 2011 (March 31, 2010 – $827.8 million)
- access to short-term funding – the corporation's access to funding through the Crown Borrowing Program and capital markets provides the corporation with sufficient liquidity to meet daily cash requirements
- access to a $30.0-million bank operating line of credit

The following tables show the undiscounted cash flows of the corporation's financial liabilities on the basis of their earliest possible contractual maturity. The gross nominal cash flows represent the contractual undiscounted cash flows relating to the principal and interest on the financial liability. The corporation's expected cash flows on certain instruments varies significantly from this analysis. For example, certain borrowings that may be prepaid by the corporation have not been included in their earliest possible maturities due to being impracticable to estimate.

Residual contractual maturities of financial liabilities

	2011						
($ thousands)	Carrying amount	Gross nominal inflow (outflow)	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years
Non-derivative liabilities							
Borrowings	$ 18,951,919	$(18,949,344)	$ (2,294,261)	$ (2,968,427)	$ (2,797,777)	$(10,303,461)	$ (585,418)
Derivative liabilities							
Carrying amount	4,724	–	–	–	–	–	–
Cash inflows	–	22,957	–	980	5,786	16,191	–
Cash outflows	–	(27,998)	–	(783)	(4,605)	(22,610)	–
	$ 18,956,643	$(18,954,385)	$ (2,294,261)	$ (2,968,230)	$ (2,796,596)	$(10,309,880)	$ (585,418)

	2010						
($ thousands)	Carrying amount	Gross nominal inflow (outflow)	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years
Non-derivative liabilities							
Borrowings	$ 17,759,171	$(17,756,713)	$ (5,386,251)	$ (1,353,378)	$ (2,134,346)	$ (7,920,645)	$ (962,093)
Derivative liabilities							
Carrying amount	6,843	–	–	–	–	–	–
Cash inflows	–	33,408	–	99	10,200	23,109	–
Cash outflows	–	(36,773)	–	(94)	(5,126)	(31,553)	–
	$ 17,766,014	$(17,760,078)	$ (5,386,251)	$ (1,353,373)	$ (2,129,272)	$ (7,929,089)	$ (962,093)

25. Segmented information

The corporation is organized and managed as a single business segment, that being agriculture lending. The operation is viewed as a single segment for purposes of resource allocation and assessing performance. All of the corporation's revenues are within Canada. No one customer comprises more than 10.0% of the corporation's loans receivable or interest revenues.

26. Comparative figures

Certain 2010 comparative figures have been reclassified to conform to the current year's presentation.

Glossary

Agribusiness and agri-food financing

Includes customers who are suppliers or processors who are selling to, buying from and otherwise serving primary producers. These include equipment manufacturers and dealers, input providers, wholesalers, marketing firms and processors.

Alliances

Relationships established by contract between FCC and other agriculture or financial organizations designed to pool talents and offer expanded customer services.

Allowance for credit losses

Management's best estimate of credit losses incurred on a loan and lease receivable portfolio. Allowances are accounted for as deductions on the balance sheet from loans and leases receivable, respectively.

Arrears

All amounts that are past due by more than $500 on a loan, including impaired loans, with the exception of amounts that became due on or after the loan's maturity date.

Basis point

One hundredth of 1%, used when describing applicable interest rates or the yield of an investment (1 bps = 0.01%).

Corporate social responsibility (CSR)

A company's commitment to operating in an economically, socially and environmentally sustainable manner, while recognizing the interests of its stakeholders, including investors, customers, employees, business partners, local communities, the environment and society at large, as defined by Canadian Business for Social Responsibility.

Counterparty

The other party involved in a financial transaction, typically another financial institution.

Counterparty risk

The risk that the counterparty will not be able to meet its financial obligations under the terms of the contract or transaction into which it has entered.

Credit rating

A classification of credit risk based on investigation of a company's financial resources, prior payment pattern and history of responsibility for debts incurred.

Crown borrowing program

Direct lending provided to the corporation by the federal government.

Customer support program

Plans developed to proactively assist customers who may experience loan repayment difficulties due to disaster or during downturns in a particular segment of the agriculture industry. Individual plans can include deferred payments or flexible repayment schedules.

Debt-to-equity ratio

The level of debt expressed as dollars of debt per one dollar of total equity, excluding accumulated other comprehensive income.

Derivative financial instrument

A financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates and foreign exchange rates. Types of derivative contracts include interest rate swaps, interest rate options, currency swaps and forward contracts.

Effective interest rate method

A method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period.

Efficiency ratio

A measure of how well resources are used to generate income calculated as administration expense as a percentage of revenue. Revenue is composed of net interest income, net insurance income and other income.

Enterprise

Specific type of agricultural operation (dairy, cash crops, beef, etc.).

Enterprise risk management

The enterprise-wide application of co-ordinated activities that direct and control an organization with respect to risk.

Fair value

The amount an independent party would pay to purchase or sell a financial instrument in the marketplace. It can be estimated as the present value of cash flows, adjusted for risk.

Foreign exchange risk

The risk of financial loss due to adverse movements in foreign currencies.

Hedge

A risk management technique used to protect against adverse price, interest rate or foreign exchange movements through elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

Impaired loans

Loans where, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Any loan where a payment is 90 days past due is classified as impaired unless the loan is fully secured.

Interest and currency rate swaps

Contractual agreements for specified parties to exchange currencies or interest payments for a specified period of time based on notional principal amounts.

Interest expense

Expense to the corporation incurred on debt.

Interest income

Income earned on loans receivable, cash and investments.

Interest rate risk

The risk that a change in interest rates adversely impacts the corporation's net interest income and economic value.

Leverage

The relationship between total liabilities and the equity of a business.

Loan renewal rate

Percentage ratio of principal dollars renewed to principal dollars matured.

Net disbursements

Disbursements represent the release of funds against approved loans. Net disbursements exclude refinancing of existing FCC loans.

Net interest income (NII)

The difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

Net interest income margin

Net interest income expressed as a percentage of average total assets.

Notional amount

The amount considered as principal when calculating interest and other payments for derivative contracts. This amount traditionally does not change hands under the terms of the derivative contract.

Other comprehensive income (OCI)

Represents gains and losses due to changes in fair value that are temporarily recorded outside of net income in a section of shareholder's equity called Accumulated Other Comprehensive Income (AOCI).

Prepayments

Prepayments are defined as unscheduled principal payments prior to interest term maturity.

Primary production financing

Refers to customers who have loans from FCC and includes agriculture operations that produce raw commodities such as crops, beef, pork, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock. These include, but are not limited to, vineyards, greenhouses, forestry (cultivation, growing and harvesting of trees), aquaculture (growing of fish, both ocean and inland) and part-time farming.

Principal not due (PND)

The principal balance owing on loans. PND is a useful measure of growth between business lines, geographic areas and enterprises. It excludes items such as arrears and interest accruals that are normally included in loans receivable.

Provision for credit losses

Charged to the income statement by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management.

Return on equity (ROE)

Net income attributable to shareholder of parent entity expressed as a percentage of total average equity excluding accumulated other comprehensive income.

Risk scoring and pricing system (RSPS)

A tool used to evaluate the type and potential impact of risks present in each loan or finance lease to ensure FCC is adequately compensated for the risk in its portfolio. The pricing component of RSPS calculates the risk price (risk adjustment), which is the portion of the loan margin required to cover the risk of loss.

Value-added

Agriculture businesses on the input or output side of primary production that produce, transport, store, distribute, process or add value to agriculture commodities.

Variable interest entity

An entity that by design does not have sufficient equity at risk to permit it to finance its activities without additional subordinated financial support, or in which equity investors do not have the characteristics of a controlling financial interest.

Sources for agriculture facts and figures

We consulted online and print publications from the following sources to provide the fast facts about agriculture that you'll find throughout this report and on the inside front and back covers:

- Agriculture and Agri-Food Canada (www.agr.gc.ca)
- Animal Cell Technology Industrial Platform (www.actip.org)
- Beef Information Centre (www.beefinfo.org)
- Canada Pork International (www.canadapork.com)
- Canola Council of Canada (www.canolacouncil.org)
- Flax Council of Canada (www.flaxcouncil.ca)
- Ontario Agri-Food Education, Inc. (www.oafe.org)
- Statistics Canada, 2006 Census of Agriculture (www.statcan.gc.ca)

Interested in a particular fact or figure? Contact our Corporate Communication department at communications@fcc-fac.ca for full reference details.

FCC office locations

British Columbia
Abbotsford, Dawson Creek, Duncan, Kelowna, Surrey

Alberta
Barrhead, Brooks, Calgary, Camrose, Drumheller, Edmonton, Falher, Grande Prairie, LaCrete (S), Leduc, Lethbridge, Lloydminster, Medicine Hat, Olds, Red Deer, Stettler (S), Vegreville, Vermilion, Westlock

Saskatchewan
Assiniboia, Carlyle, Humboldt, Kindersley, Meadow Lake (S), Moose Jaw, Moosomin (S), North Battleford, Prince Albert, Regina, Rosetown, Saskatoon, Swift Current, Tisdale, Weyburn, Wynyard (S), Yorkton

Manitoba
Arborg, Brandon, Carman, Dauphin, Killarney (S), Morden, Neepawa, Portage la Prairie, Shoal Lake (S), Steinbach, Stonewall (S), Swan River, Virden, Winnipeg

Ontario
Campbellford, Chatham, Clinton, Embrun, Essex, Guelph, Kanata, Kingston, Lindsay, Listowel, London, Mississauga, North Bay, Owen Sound, Simcoe, Stratford, Thornton, Vineland, Walkerton, Woodstock, Wyoming

Quebec
Alma, Blainville, Drummondville, Gatineau (S), Granby, Joliette, Lévis, Rivière-du-Loup, Salaberry-de-Valleyfield, Sherbrooke, Ste-Marie, St-Hyacinthe, St-Jean-sur-Richelieu, Trois-Rivières, Victoriaville

New Brunswick
Grand Falls, Moncton, Sussex (S), Woodstock

Newfoundland and Labrador
Mount Pearl

Nova Scotia
Kentville, Truro

Prince Edward Island
Charlottetown, Summerside

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Regina SK S4P 4L3
1-800-667-7893
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Fax: 306-721-1981

FCC Ventures
1800 Hamilton Street,
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Regina SK S4P 4L3
Telephone: 306-780-5708
Fax: 306-780-8757

Government and Industry Relations
Tower 7 Floor 10 Room 319
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Ottawa ON K1A 0C5
Telephone: 613-773-2940
Fax: 613-960-7024

(S) Satellite office – limited hours

www.fcc.ca
csc@fcc-fac.ca

Customer toll-free number
Extended hours: 1-888-332-3301

FCC's venture capital investments are managed by:

AVRIO VENTURES
www.avrioventures.com
info@avrioventures.com

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600 Crowfoot Crescent N.W., Suite 235
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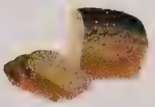
Fax: 403-215-5495

Montreal
2500-1155 René Lévesque Blvd. W.
Montreal QC H3B 2K4
Telephone: 514-868-1079



120 The number of people an average farm in Canada can feed every day

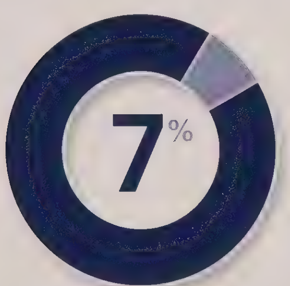
67

MILLION HECTARES
are used for farmland in Canada

1 in 6

Canadian farms has a gross income greater than $250,000

The agriculture and agri-food sector includes over
229,000 farms



The amount of Canadian land used for agriculture, the same as in 1986

Canola was developed by Canadians and generates
$14 billion
in economic activity each year

The total capital invested in an average farm today is over **$1 MILLION**

Farm Credit Canada
Advancing the business of agriculture

Canada

Agriculture
more than ever

fcc

2011-12 Annual Report

The agriculture and agri-food system provides

1 in 8 jobs in Canada

79% of producers would recommend a career in an agriculture-related field

80% of producers and agribusiness owners believe their farm or business will be better off in five years

The average Canadian spent about 14 per cent of his or her household budget on food in 2010, down from 19 per cent in the 1960s

Agriculture
more than ever

At FCC, we're proud to support agriculture. This dynamic and diverse industry is critical to Canada's economy.

Canada produces some of the safest, highest quality food in the world. Our country's innovations in resource management and agribusiness development make Canadians respected world leaders in agriculture.

We know that agriculture has never mattered more to Canada and the world. From the people who work the land to the businesses that support them, from the visionaries who discover new uses for commodities to the companies that bring these new products to market, the future of this industry is strong and bright.

At FCC, we have always believed in the industry and the people who make it great. While agriculture certainly can be challenging, it's also tremendously rewarding.

The story of agriculture is one of success, promise and determination. As Canada's leading provider of financial and business services to agriculture, FCC wants to tell this story. That's why we're championing a cause to ensure that all Canadians understand what agriculture is really about.

Agriculture More Than Ever is not a one-time event or campaign. It's a cause intended to stimulate positive dialogue, share positive stories and portray Canadian agriculture as the modern and vibrant industry it indeed is. Agriculture has tremendous career opportunities in the field, the lab and the boardroom.

FCC is in a unique position to kick-start and support this cause because agriculture is our only focus. We see the successes and optimism of our customers every day. We want all Canadians to understand how important agriculture is to Canada and the world.

We believe in the strength of Canadian agriculture

Our lending products are tailored to the unique needs of agriculture. We provide business services to the agriculture value chain with accounting and field crop management software, insurance, leasing, knowledge sharing and expertise.

Our learning offerings provide Canadian producers and agribusiness operators with valuable, inspiring information and training to help advance their business management practices. We offer workshops and sessions on a variety of topics, forums where customers can learn and network, free publications that offer tips and track industry trends, and e-learning where the industry and our customers can come to grow themselves and their businesses.

We work with young producers and new entrants to farming, offering products and services that help them get established. We also help facilitate the transfer of family farms from one generation to the next.

While primary production remains our foundation, we also serve those businesses that serve producers – equipment manufacturers, dealers, input providers, food processors and wholesalers. We help businesses like these expand into new markets, improve efficiency and capacity, take advantage of opportunities, adopt new technology and compete in the marketplace.

We support rural communities where our customers and employees live and work through our community investment. We offer farm safety programs, work with food banks to address hunger issues and offer a variety of funds to local projects.

FCC has been in business for more than 50 years. Today, we have more than 100,000 customers and more than 1,500 employees serving them from coast to coast. We're focused on agriculture and committed to the long-term success of the industry.

At FCC, we are advancing the business of agriculture.

FCC customer value proposition

From its origins in 1959, FCC today proudly serves Canadian agriculture as the leading provider of financing to the industry.

We focus on the primary producer as well as suppliers and processors along the agriculture value chain.

We provide our customers with flexible, competitively priced financing, equity, insurance, management software, information and learning.

These services help our customers make sound business decisions and experience greater success.

We take time to get to know our customers, their individual needs, goals and vision for the future. We work with them through challenges and help them pursue opportunities.

We're easy to do business with.

Agriculture. We know it. We love it. We're in it for the long run.

Operational and financial highlights

In 2011-12, Canadian agriculture experienced growth and most enterprises enjoyed a profitable year. Farm cash receipts improved over the previous year, farm assets appreciated in value and producer optimism was high. This created a robust demand for agribusiness products. FCC continued to provide customers with flexible and customized financial solutions, knowledge and expertise to help them succeed. FCC's unwavering commitment to advancing the business of agriculture and delivering an extraordinary customer experience ensured that the corporation remained financially strong. In 2011-12, growth in loans receivable was $1.8 billion or 8.4 per cent.

The number of loans disbursed was 45,578 in 2011-12 and the average size of the loans disbursed was $156,150, resulting in net disbursements of $7.1 billion. Net interest income increased by $47.2 million and equity continues to grow with corporate earnings. As the financial results indicate, FCC continues to build a strong financial foundation, which helps to ensure the continued ability to fund investment and growth in the industry.

For the years ended March 31

Operational highlights

	IFRS		Canadian GAAP		
	2012	2011	2010	2009	2008
Loans receivable portfolio					
Number of loans	126,496	120,070	114,439	106,867	98,066
Loans receivable ($ millions)*	23,202.3	21,401.3	19,816.2	17,130.3	15,011.2
Net portfolio growth (%)	8.4	8.0	15.7	14.1	10.6
Loans receivable in good standing (%)	98.5	97.9	97.7	97.5	97.4
New lending					
Number of loans disbursed	45,578	42,021	41,418	31,037	32,561
Net disbursements ($ millions)	7,116.8	6,153.2	6,585.6	5,068.4	4,285.0
Average size of loans disbursed ($)	156,150	146,432	159,003	163,302	131,600

Financial highlights

	IFRS		Canadian GAAP		
	2012	2011	2010	2009	2008
Consolidated balance sheet ($ millions)					
Total assets	23,829.0	21,870.7	20,286.3	17,802.7	15,470.5
Total liabilities	20,720.8	19,189.3	17,941.2	15,519.2	13,693.5
Total equity	3,108.2	2,681.4	2,345.1	2,283.5	1,777.0
Consolidated statement of operations ($ millions)					
Net interest income	797.3	750.1	609.9	508.0	434.4
Provision for credit losses	1.8	35.6	91.4	70.0	5.0
Other income	51.1	16.0	10.3	6.2	14.4
Administration expenses	283.5	273.8	255.2	231.4	197.6
Fair value adjustment	2.0	3.5	6.6	(1.7)	(41.1)
Net income	565.1	460.2	280.2	211.1	205.1

*Loans receivable for 2008 through 2010 have been restated as a result of prior period adjustments.

Corporate profile

Farm Credit Canada (FCC) is a financially self-sustaining federal Crown corporation reporting to Parliament through the Minister of Agriculture and Agri-Food. Our corporate office is located in Regina, Saskatchewan. We provide financing and other services to primary producers, value-added operators, suppliers and processors along the agriculture value chain. Operating from 100 offices located primarily in rural communities, our more than 1,500 employees are passionate about the business of agriculture.

Our roots date back to 1929, when the Canadian Farm Loan Board (CFLB) was established to provide long-term mortgage credit to farmers. In 1959, the Farm Credit Act established FCC as an agent Crown corporation named in Part 1 of Schedule III of the Financial Administration Act, making us the successor to the CFLB.

In 1993, the Farm Credit Corporation Act was proclaimed into law, providing an expanded mandate and broader lending and administrative powers. Under the new mandate, FCC could provide financial services to farming operations, including individuals, farming corporations and farm syndicates, under the authority of one act.

In 2001, the Farm Credit Canada Act received royal assent, allowing us to offer an even broader range of services to producers and agribusiness operators.

Vision

FCC's long-term vision is as follows:

The full agriculture value chain believes FCC is advancing the business of agriculture by providing financial products, services and knowledge tailored to producers and agribusiness operators.

Our customers are advocates of FCC and can't imagine doing business without us.

We are socially and environmentally responsible and an employer of choice everywhere we operate.

We make it easy for customers and employees to do business.

We are financially strong and stable, and invest significantly in the agriculture and agri-food industry.

Mission

The purpose of the corporation is to enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small and medium-sized businesses, that are businesses related to farming. The primary focus of the activities of the corporation shall be on farming operations, including family farms.

Corporate values

We are committed to advancing the business of agriculture. We do this by setting our sights high – working to benefit our customers and to help employees achieve their potential.

Our corporate values represent these core beliefs:

Act with integrity

We are ethical and honest. We treat customers, colleagues and all stakeholders with respect.

Focus on the customer

We care about our customers, and we pride ourselves on providing them with an extraordinary experience based on personal relationships, flexibility and industry knowledge.

Achieve excellence

We share a commitment to high performance, accountability and efficiency in order to achieve excellence.

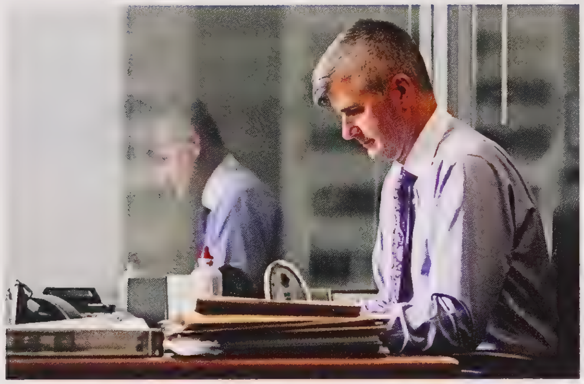
Working together

We believe in the power of teamwork. Whether delivering service tailored to customer needs or designing solutions to benefit the industry, we work together as one team.

Give back to the community

We take corporate social responsibility seriously. We believe in giving back to the communities where our customers and employees live and work, striving to reduce our impact on the environment and contributing to the success of the agriculture industry.

Message from the President and CEO



These are exciting times for Canadian agriculture. It's a complex, dynamic industry that is contributing to our country's economy like never before. Not only is agriculture the foundation of our food supply, it supports people employed in the business, technology, health, energy and environment sectors who live in urban and rural settings across Canada. Every Canadian is touched by agriculture.

Agriculture is a demanding, yet rewarding, way of life for producers and agribusiness operators. It requires commitment, forward-thinking and an appropriate risk appetite. Collectively, producers and agribusiness operators are successful, optimistic and strong advocates of the industry.

This was confirmed through the results of the fifth annual national FCC Vision Panel survey, released in January 2012. More than 4,500 producers and agribusiness operators offered their views on the current and future state of the industry. The results are more than encouraging. Eighty per cent believe that their farm or business will be better off in five years. That's an all-time high for this survey. What's more, 77 per cent of respondents reported being better off today than they were five years ago and seven in 10 producers would encourage a friend or relative to pursue a career in primary production.

Canadian agriculture is stable and growing, despite cyclical challenges in some regions and sectors. I believe this is why the people involved in agriculture are so rightfully proud of this industry and their accomplishments.

Having said that, it's surprising to learn that the general public does not view agriculture as positively. In 2011, FCC surveyed Canadians who are not involved in the industry on their perceptions of agriculture. The results certainly did not reflect the optimism and growth that we at FCC and our customers see every day.

The truth is that Canadian agriculture has never mattered more to this country – and the world. That's the message we want the public to understand. It's the message we want every producer and agribusiness operator to truly feel and feel driven to share.

FCC has a responsibility to partner with others to help shift negative perceptions. Canadian agriculture has a great story to tell. Those of us working in the industry need to spread the word and ensure that we talk about agriculture's successes in addition to the challenges.

The agriculture and agri-food system accounts for eight per cent of Canada's gross domestic product and $35 billion in exports every year. It is a major employer in Canada, with 2.1 million jobs related to this industry.[1] Agriculture feeds Canadians as well as countries all over the world.

In 2012, we're launching Agriculture More Than Ever, a major multi-year initiative to change the perceptions of agriculture. We take this cause seriously and we're proud to kick-start and support this important cause.

At FCC, we also demonstrate our commitment to agriculture through our core business, providing financial and business products tailored to the unique needs of the industry. We're the only financial institution focused solely on the agriculture value chain. Most of our 100 offices across the country are in rural areas. We provide flexible loan products, venture capital, software, learning events and publications. We've earned our success with these products and services and, also, by demonstrating integrity, partnership, commitment and excellence. This has built the trust and respect of our customers, our partners and the industry.

Everything we do is designed first and foremost to serve our customers. That's why more than 100,000 people have chosen FCC as their financial partner of choice. More than six out of 10 customers give FCC perfect scores on our customer experience index. They tell us they like dealing with FCC because we're about relationships, we're flexible and we know the

[1] Agriculture and Agri-Food Canada, An Overview of the Canadian Agriculture and Agri-Food System, March 2012

industry. That's no surprise, because our more than 1,500 employees know agriculture inside and out. They are deeply committed to providing customers with an extraordinary experience.

Our loan portfolio of more than $23.2 billion and 19 consecutive years of growth reflect our customers' continued confidence in FCC. In 2011-12, we extended $7.1 billion in disbursements to 40,459 customers across Canada. This includes $1.9 billion borrowed by young farmers to grow their operations. Our portfolio growth of eight per cent and our high customer satisfaction are a direct result of the talent, commitment and enthusiasm of the outstanding people who have chosen to build their careers at FCC.

Speaking of employees, I truly believe that the employee experience at FCC has a direct impact on business results. Just like we want customers to feel that there is nobody else they'd rather do business with, we want employees to feel that there is no place they'd rather come to work every day than FCC. Our internal culture and the employee experience make us different from just about every other workplace. We have continued to achieve great business results, even in tough economic times, because of our focus on how we achieve those results.

Global forces, uncertain financial markets and price fluctuations have accelerated the need for businesses to adapt and innovate, and this is no different for agriculture. Our customers must make complex decisions every day. Product prices and input costs can be volatile, which requires producers to carefully manage their risks. The continued strength of the Canadian dollar continues to challenge our producers and agribusiness operators to strive for peak efficiency. Consolidation is continuing within the industry as intergenerational transfers take place. Like many other industries, producers continue to seek ways to enhance returns. The current interest rate environment has benefited producers and agribusiness operators because of relatively low financing costs. However, interest rates will eventually rise and it's important for everyone involved in agriculture to ensure that their budgets can absorb the costs.

For us at FCC and our customers, industry knowledge and flexibility are more important than ever to manage risk and remain financially strong. A key part of our business is to monitor industry and economic trends. We share this knowledge with our customers and help them to make prudent business decisions. The complexity involved in the daily management of a farm or agribusiness continues to grow. We help our customers navigate market volatility, environmental concerns, consolidation and shifting consumer preferences. In 2011-12, over 27,000 people attended 265 seminars, workshops, forums, webinars and presentations offered through FCC Learning.

No matter how strong an operation is, sometimes the unexpected occurs. We offer customer support programs to help producers manage when such challenges arise and work with them to provide flexible timing to loan payments. In 2011, for example, FCC reached out to customers in Saskatchewan and Manitoba affected by excessive moisture and flooding. We'll continue to support our customers as the industry moves forward.

It's also important to support the communities where our customers and employees live and work. At FCC, giving back to the communities we serve is a big part of who we are and how we operate. Our community investment activities are closely aligned with agriculture. We mainly focus on hunger, rural safety, volunteerism and community enhancement projects.

Each year, our largest community investment activity is the FCC Drive Away Hunger program. Building on an initiative started by a single employee in 2004, our employees across the country partner with business and community organizations and organize tractor tours to collect food for local food banks. In 2011, FCC Drive Away Hunger collected a record 2.4 million pounds of food. In its eight years, the program has collected an amazing 7.8 million pounds of food.

We're proud that our customers choose FCC. They tell us that the reason they stick with us is because we stick with them over the long term, through good times and bad. In the coming months and years, we'll be standing shoulder to shoulder with our customers and partners to tell the great stories happening in the agriculture industry. And, over time, all Canadians will increasingly recognize the engine that puts safe, high-quality food on the table and supports jobs and families from coast to coast.

Agriculture matters to Canadians and the world – more than ever.

Greg Stewart, President and CEO

Message from the Board Chair

It is an honour to serve Canada's agriculture industry. It's an exciting, dynamic and forward-looking industry that contributes to the health and well-being of Canadians.

Today's producers and agribusiness operators work hard to succeed in an increasingly complex and demanding business environment. FCC is proud to offer them the products, services, knowledge and tools to help them take advantage of opportunities and manage through challenges.

FCC is the only national financial institution focused solely on agriculture and committed to its long-term success. Both established producers and newcomers look to FCC as a trusted financial and business partner. Suppliers, processors and value-added operators benefit from FCC's innovative products and services.

As a federal Crown corporation, FCC also demonstrates its public policy role through workshops and training, customized management software, support for producers facing challenges, and programs that invest in rural communities across the country.

On behalf of the FCC Board of Directors, I would like to recognize the dedication of the Executive Management Team. Their strong leadership and effective management has once again led FCC to another outstanding year operationally. I also thank FCC employees across the country for their outstanding contributions to their customers, their communities and the industry. I'm especially proud of the fantastic results achieved by the FCC Drive Away Hunger program. The 2.4 million pounds of food collected in 2011 and 7.8 million pounds raised since 2004 are a wonderful example of community involvement.

The entire Board of Directors shares the corporation's commitment to advancing the business of agriculture. The Board's role is to ensure that FCC is governed appropriately and performs in the best interests of the corporation, agriculture and all Canadians.

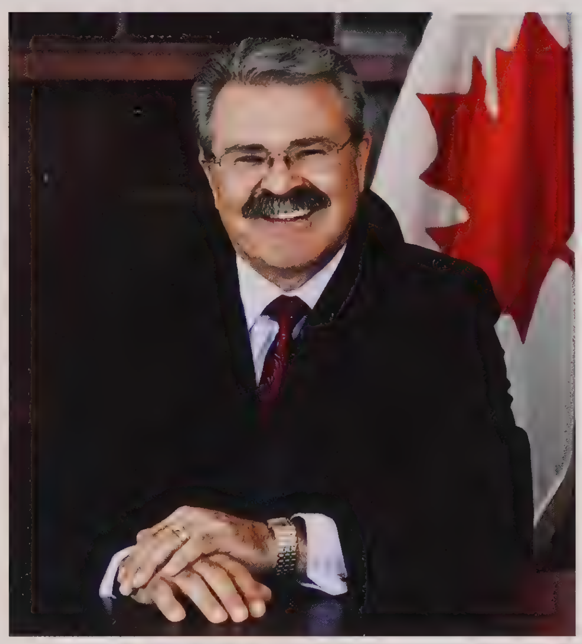
As Board Chair, I am excited about the future of FCC and the future of the Canadian agriculture industry. The enthusiasm and commitment that drives this corporation will continue to help the industry prosper.

Respectfully submitted on behalf of the FCC Board of Directors,

Gill Shaw

Gill O. Shaw, Board Chair

Message from the Agriculture Minister



Canada's agriculture industry is creating jobs, fuelling economic growth and feeding families here at home and around the world. It continues to be the backbone of a strong and healthy Canada. These are exciting times as the industry experiences change and evolution, and we're committed to ensuring that agriculture remains viable, profitable and competitive in the global market.

FCC plays an essential role in helping our agriculture industry grow and prosper. As Canada's leading provider of financial and business services tailored to the industry, FCC is uniquely positioned to serve the entire value chain from producers to suppliers and processors. FCC's focus on agriculture – coupled with its outstanding suite of products and services, the knowledge and commitment of its employees and genuine care for rural communities – makes the corporation a truly valuable business partner to the industry it serves. Most importantly to farm businesses, FCC is a dependable partner when planning for the future.

I congratulate FCC on its 19th consecutive year of portfolio growth. This accomplishment is a clear indication of the corporation's connection with its customers and ongoing confidence in FCC as their financial partner of choice. It also shows that FCC shares the government's vision of investing in the long-term growth of Canadian agriculture and agri-food by building new markets, supporting young producers and ensuring that customers have access to the tools they need for success. I am particularly pleased to see the strong growth of FCC's agribusiness and agri-food products and services. Not only does this support primary producers, it also helps generate profit and jobs for value-added enterprises and contributes to economic growth in Canada.

I'm proud that FCC will continue to serve agriculture customers in what will surely be a prosperous future, just as it has through every past economic cycle. On behalf of the Government of Canada, I extend my thanks to FCC and its employees for their fine work and commitment to the prosperity of the agriculture industry.

Gerry Ritz, Agriculture Minister

FCC and public policy

Statement of priorities

FCC supports the federal government's vision for continued growth and prosperity in the agriculture industry.

The Minister of Agriculture and Agri-Food has established the following priorities to ensure that FCC continues to strengthen the agriculture industry:

- FCC will continue to work collaboratively with Agriculture and Agri-Food Canada (AAFC) on key issues affecting the industry. For example, FCC will continue to provide advice and expertise to AAFC as it works to develop the Growing Forward 2 agriculture policy framework and implement its service excellence agenda.
- FCC plays an important role in supporting farmers and giving them the tools they need to grow their operations. FCC will continue to provide a full range of credit products – short-term credit, long-term mortgages and venture capital – at competitive rates.
- FCC provides financial services that allow its customers to grow, diversify and expand, both within and outside of Canada. As such, FCC will continue to work with the Business Development Bank of Canada and Export Development Canada, along with AAFC, to support access to international markets for Canadian agribusinesses.
- FCC plays a vital role in supporting renewal in agriculture. Working with stakeholders and in collaboration with AAFC, FCC will continue to offer unique business services, workshops and learning forums, as well as publications and educational offerings tailored to the specific needs of producers and agribusiness operators. FCC will continue to work with young farmers and new entrants in agriculture to offer products that will help them get established and help facilitate the intergenerational transfer of family farms throughout Canada.
- It is vital that FCC remains self-sustaining and profitable, while at the same time remaining efficient in the delivery of its products and services, by controlling discretionary spending and managing all of its expenditures prudently.
- FCC will abide by the spirit and intent of the government's Strategic and Operating Review[2] introduced in the 2011 federal budget.

We are proud to serve all of agriculture, all the time – all sectors, all across Canada

FCC's public policy role

FCC enhances rural Canada by providing specialized and personalized business and financial services to farm families and agribusinesses.

Our public policy role is the foundation of everything that we do to advance the business of agriculture.

With more than 100,000 customers[3] nationwide, we help producers and agribusiness operators succeed in an increasingly complex and demanding industry.

FCC provides financing to producers of all ages and to agriculture operations of all sizes, across all sectors. We loan money to agribusinesses, including suppliers and processors that serve producers. A healthy value chain provides producers with more stable purchasing and selling options.

In 2011-12, 40,459 customers received loans or other financial products through one of FCC's 100 offices, which are located primarily in rural areas across Canada:

Alberta – 8,312
British Columbia – 2,763
Manitoba – 2,962
New Brunswick – 511
Newfoundland & Labrador – 121
Nova Scotia – 520
Ontario – 10,520
Prince Edward Island – 274
Quebec – 4,332
Saskatchewan – 10,118
Yukon – 26

Among these customers, 38,280 are primary producers and 2,179 are agribusiness operators.

In 2011-12, we loaned over $1.9 billion to young farmers.

[2] This has been renamed the Deficit Reduction Action Plan.
[3] FCC currently has more than 100,000 customers. The customer number includes all customers with an active loan balance who are primary borrowers, co-borrowers or guarantors for personal and corporate loans, including primary production, agribusiness and agri-food, and alliances.

We are dedicated to agriculture and take the long-term view

FCC is a profitable, financially self-sustaining Crown corporation. We support the agriculture industry and we are committed to its long-term success. Our strong financial position enables us to create innovative products and services that are tailored to the dynamic needs of the industry and ensure that producers and agribusiness operators have choices in the marketplace.

Our loan products reflect that agriculture is a cyclical industry and that it takes time for business operations to flourish. Unpredictable weather and market conditions can negatively affect even the best producers and agribusiness operators. We support our customers through highs and lows.

For over 10 years, FCC's customer support program has helped producers manage when unexpected challenges arise, particularly during unpredictable events such as avian flu, drought and the 2003 BSE (bovine spongiform encephalopathy) crisis.

In 2011, we assisted customers affected by excess moisture in Manitoba and southeastern Saskatchewan with flexible solutions tailored to individual producer situations.

We are visionary and operate our business in a sustainable manner

FCC offers unique products and services to help young farmers and agribusiness entrepreneurs succeed in a sophisticated marketplace that continually evolves.

We believe that knowledge is vital to the success of our customers and the industry. We offer workshops, publications and learning forums across the country, and encourage employees and customers to share insights and information. These services are offered free of charge.

Our corporate social responsibility framework focuses on agriculture and food, community, customers, employees and the environment. To support our commitment, we offer environmental information and products to our customers, hire and develop employees who are passionate and knowledgeable about agriculture, give back to the communities where our customers and employees live and work, and continually work to reduce our environmental footprint.

The FCC AgriSpirit Fund awards rural community groups between $5,000 and $25,000 for community improvement projects such as recreation and community centres, emergency services training facilities and health and safety centres.

In 2011-12, FCC gave a total of $1 million through the fund to 120 rural community groups across Canada for various capital projects.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Corporate governance

We are accountable to the Parliament of Canada

FCC is governed by the Farm Credit Canada Act and the Financial Administration Act. Like other Crown corporations, we are subject to laws such as the Federal Accountability Act, Privacy Act, Access to Information Act, Canadian Labour Code, Employment Equity Act, Canadian Environmental Assessment Act and Official Languages Act.

We build relationships with our customers, partners and stakeholders

FCC looks to a variety of stakeholders and partners for guidance and expertise in public sector governance practices.

FCC regularly meets with Agriculture and Agri-Food Canada, the Treasury Board of Canada Secretariat, the Department of Finance and other Crown corporations to ensure that our policies and procedures are current and sound. Each year, we collaborate with Export Development Canada and the Business Development Bank of Canada to share ideas and best practices about ways that we can work together to benefit customers. We also seek opportunities to work with banks and credit unions to meet the financial needs of our customers.

The FCC Vision Panel is a 9,000-member research advisory group representing small to large Canadian producers and agribusiness operators across all sectors. The panel's input helps us to ensure that our products and services meet the needs of the agriculture industry.

In addition, the FCC Board of Directors hosts an annual public meeting every August where we report our activities and financial results and listen to feedback from interested stakeholders and the Canadian public about our mandate and strategic direction.

FCC attends the annual meeting of the Canadian Federation of Agriculture and events and meetings hosted by other industry and producer groups to share knowledge and solicit input and feedback on issues facing agriculture.

We represent Canadians

Representing the interests of Canadian people, particularly those who make their livelihood in the agriculture industry, the Board oversees the corporation's business operations.

Directors are appointed by the Governor in Council upon the recommendation of the Minister of Agriculture and Agri-Food. Except for the President and CEO, directors are independent of management. They bring a combination of senior agriculture, business and financial experience and expertise to the task of governing a corporation that serves an increasingly complex industry.

Board composition

The Board is composed of 12 directors, including the Chair and the President and CEO. Directors serve terms of up to four years and may be reappointed.

Directors include successful primary producers and agribusiness operators from rural and small urban centres. The Board strives for diversity – gender, geographic, ethnic, cultural, age and language – to reflect the broad spectrum of agriculture in Canada. Directors participate in one of three Board committees: Audit, Human Resources or Corporate Governance.

The Board is committed to financial transparency, and the Audit Committee works closely with the Office of the Auditor General (OAG) of Canada to ensure the integrity of FCC internal controls and management information systems. The OAG audits FCC every year and performs a special examination at least every 10 years. The purpose of special examinations is to ensure that Crown corporations' systems and practices provide reasonable assurance that assets are safeguarded, resources are managed economically and efficiently, and operations are carried out effectively. The most recent special examination of FCC began in May 2011 and the OAG report is expected in the first quarter of 2012-13.

Every year, FCC's annual report and five-year corporate plan are approved by the Board. The annual report is then submitted to the Minister of Agriculture and Agri-Food and the President of Treasury Board. After Treasury Board approval of the Corporate Plan, a summary of the corporate plan is submitted to the Minister of Agriculture and Agri-Food. Both the annual report and the summary of the corporate plan are tabled before each House of Parliament.

New appointments

On June 23, 2011, Dale Johnston from Ponoka County, Alberta, was appointed to replace Gilles Lapointe. Sylvie Cloutier of Bromont, Quebec, was appointed to replace Caroline Belzile effective April 5, 2012.

We take care of the business

The Board oversees the strategic planning process and provides input, guidance, validation and a critical evaluation of strategic plans and initiatives. After the plans are approved, the Board provides support to implement them and measure success. Strategic initiatives are reviewed throughout the year.

The roles and responsibilities of the Chair, Board directors, President and CEO and committees are set out in written profiles and charters. The charter and related governance guidelines establish the Board's responsibilities in six major areas:

- integrity – legal and ethical conduct (setting the tone at the top)
- strategic planning and risk management
- financial reporting and public disclosure
- leadership development
- government relations and corporate social responsibility
- corporate governance

The corporation has a well-established enterprise risk management process designed to identify potential events that may affect business operations. The Board ensures that appropriate authorities and controls are in place, risks are properly managed and the achievement of goals and objectives is not in jeopardy.

Senior FCC managers work closely with the Board to ensure that the Board is fully aware of the corporation's affairs. The Chief Financial Officer and the Chief Operating Officer attend every Board meeting. Other members of the Executive Management Team also attend meetings on a rotating basis to strengthen the relationship between the Board and management. There is time set aside at each meeting for the Board and each of its committees to meet without management present.

The Board follows a formal approach to the President and CEO's goal-setting and performance review that is consistent with the Performance Management Program established by the Federal Privy Council Office.

Board performance

Upon appointment to the Board, each director receives a detailed orientation and meets with senior management to learn about the corporation. To gain an understanding of FCC's business, directors regularly visit customer operations and attend employee meetings. In addition, many directors attend conferences and seminars that are relevant to corporate governance and the business of FCC. Some are also involved in director certification programs.

The Board regularly assesses its collective performance and the individual performance of its directors through a structured self-evaluation process.

Position profiles for the Chair and individual directors are reviewed annually to ensure that they continue to accurately describe desired competencies and skills. Gaps are addressed through new appointments, training and by hiring outside experts to assist the Board in its review of technical or specialized issues.

Compensation

Directors are paid an annual retainer and per diem amounts that are established by the Governor in Council, pursuant to the Financial Administration Act. Rates were last set on January 8, 2008.

- The Board Chair receives an annual retainer of $12,400.
- Committee chairs receive an annual retainer of $7,200.
- Other directors receive an annual retainer of $6,200.
- All directors, including the Chair, receive a per diem of $485 for meetings, training sessions, travel time and FCC-sponsored events.
- Directors are reimbursed for all reasonable out-of-pocket expenses, including travel, accommodation and meals, while performing their duties.

During 2011-12, there were seven Board meetings and 16 committee meetings. Total remuneration (annual retainer and per diems) paid to all directors was $212,579.00. Total Board travel and related expenses were $179,159.53, compared to $155,545.62 in 2010-11.

2011-12 Board remuneration, attendance and expenses

Director	Annual retainer (A)	Per diems (B)	Total remuneration (A&B)	Board meeting attendance	Committee meeting attendance	Board travel and related expenses
Caroline Belzile	$ 6,200.00	$ 14,550.00	$ 20,750.00	7 of 7	4 of 4	$ 18,713.36
Donald Bettle	6,200.00	17,460.00	23,660.00	6 of 7	4 of 4	29,349.41
Caroline Granger	7,200.00	15,035.00	22,235.00	7 of 7	4 of 4	20,671.60
Brad Hanmer	7,200.00	8,245.00	15,445.00	6 of 7	4 of 4	4,612.15
Ron Hierath	6,200.00	7,760.00	13,960.00	3 of 7	2 of 4	8,433.40
Dale Johnston[4]	4,999.00	0.00	4,999.00	6 of 6	3 of 3	13,216.89
John Klippenstein	7,200.00	16,490.00	23,690.00	7 of 7	8 of 8	16,545.01
Gilles Lapointe	1,550.00	1,940.00	3,490.00	1 of 1	1 of 1	6,277.75
Ross Ravelli	6,200.00	10,670.00	16,870.00	5 of 7	4 of 6	12,473.29
Gill O. Shaw	12,400.00	19,885.00	32,285.00	7 of 7	8 of 8	15,581.94
Jason Skinner	6,200.00	5,820.00	12,020.00	5 of 7	6 of 8	5,371.12
Carl Spencer	6,200.00	16,975.00	23,175.00	7 of 7	4 of 4	27,913.61
Total	**$ 77,749.00**	**$ 134,830.00**	**$ 212,579.00**			**$ 179,159.53**

There were eight Audit, four Human Resources and four Corporate Governance committee meetings.

Code of conduct, ethics and values

At FCC, acting with integrity and maintaining the highest ethical standards are vital priorities. On appointment and every year during his or her tenure, each director signs a declaration committing to act in accordance with FCC's Code of Conduct and Ethics. The Board has also established a process to directly disclose any potential violations of the code by the President and CEO or his direct reports, and a policy that specifies how to address situations where a director has a conflict of interest. FCC's Integrity Officer discloses all possible violations of the code and discusses ongoing employee education and awareness with the Board annually.

In addition, the Audit Committee reviews the travel and hospitality expenses of the President and CEO quarterly. The committee also annually reviews a listing of all contracts over $50,000.

[4] As a former member of parliament, Dale Johnston is subject to the Members of Parliament Retiring Allowances Act. His total remuneration is capped at $5,000.

Board committees

Audit Committee

Chair: John Klippenstein
Members: Gill O. Shaw (Board Chair), Ross Ravelli and Jason Skinner

Members of the Audit Committee are independent of management. All committee members are financially literate and most members are considered to be financial experts.

The Audit Committee oversees FCC's financial performance and ensures the integrity, effectiveness and accuracy of the corporation's financial reporting, control systems and audit functions.

In addition to meetings with management, this committee meets regularly with representatives of the Office of the Auditor General and FCC internal auditors without management present.

Human Resources Committee

Chair: Brad Hanmer
Members: Caroline Belzile, Donald Bettle and Greg Stewart (CEO)

The Human Resources Committee reviews all major human resources policy matters. The committee is responsible for advising the Board with respect to the skills and characteristics essential to the position of the President and CEO and how to assess his performance. It also works with the President and CEO to agree on an annual development plan.

The Human Resources Committee is responsible for reviewing the corporation's compensation structure, succession plan, including training and development plans for employees, and the executive perquisites program.

Corporate Governance Committee

Chair: Caroline Granger
Members: Ron Hierath, Dale Johnston and Carl Spencer

The Corporate Governance Committee reviews and makes recommendations to the Board with respect to sound governance practices. It also oversees the corporation's strategic planning process, including enterprise risk management and FCC's corporate social responsibility program. This committee also acts as the Board's nominating committee.

The Corporate Governance Committee regularly reviews the number, structure and mandates of the Board's committees and is responsible for conducting Board evaluations concerning the performance of directors, committees and the Board as a whole. The Corporate Governance Committee also oversees the FCC policies on ethics, conflict of interest and code of conduct for employees and directors.

FCC Board of Directors*

Gill O. Shaw, MBA, B.Sc.Ag.
Chair, FCC Board of Directors
Retired CEO, Manitoba Agricultural Credit Corporation
Brandon, Manitoba
Appointed Chair October 30, 2006
Reappointed Chair August 4, 2009

Greg Stewart, P.Ag., C.Dir.
President and CEO, FCC
Regina, Saskatchewan
Appointed January 1, 2008

Donald Bettle
Owner, cow/calf operation and woodlot
Passekeag, New Brunswick
Appointed January 25, 2007
Reappointed February 10, 2010

Sylvie Cloutier, BA, Comm.
President and CEO, The Quebec Food Processors Council
Bromont, Quebec
Appointed April 5, 2012

Caroline Granger
President and CEO, The Grange of Prince Edward Vineyards and Estate Winery
Hillier, Ontario
Appointed June 27, 2007
Reappointed August 6, 2010

Brad Hanmer, B.Sc.Ag.
Co-owner/operator, commercial grain and pedigreed seed farm
Govan, Saskatchewan
Appointed January 25, 2007
Reappointed February 10, 2010

Ron Hierath
Realtor, residential and agricultural sales
Lethbridge, Alberta
Appointed January 25, 2007
Reappointed February 10, 2010

Dale Johnston
Owner/operator, mixed farming operation
Ponoka County, Alberta
Appointed June 23, 2011

John Klippenstein, FCMA
COO, Klippenstein Management Services
Steinbach, Manitoba
Appointed July 30, 2008
Reappointed December 15, 2011

Ross Ravelli
Owner, Ravelli Farms Ltd.
Dawson Creek, British Columbia
Appointed February 10, 2010

Jason Skinner, M.Sc., P.Ag.
CEO, NorthWest Terminal Ltd.
Wilkie, Saskatchewan
Appointed February 12, 2009,
Reappointed March 1, 2012

Carl Spencer, B.Sc.Ag.
Owner/operator, beef farm and maple syrup operation
Tara, Ontario
Appointed November 26, 2009

*Full biographies are available at www.fcc.ca

Executive Management Team

Greg Stewart, P.Ag., C.Dir.
President and Chief Executive Officer

Rick Hoffman, CMA, MBA
Executive VP and Chief Financial Officer

Rémi Lemoine, MBA, CCP
Executive VP and Chief Operating Officer

Lyndon Carlson, P.Ag.
Senior VP, Marketing

Kellie Garrett, MA, MC, ICD.D
Senior VP, Strategy, Knowledge and Reputation

Michael Hoffort, P.Ag.
Senior VP, Portfolio and Credit Risk

Greg Honey
Senior VP, Human Resources

Paul MacDonald
Senior VP and Chief Information Officer

FCC has attracted a senior team of professionals with diverse talents and experience. Our Executive Management Team (EMT) members are sought after as best practice leaders in their professions, and they actively volunteer in their communities. Each member of EMT believes that a culture characterized by open communication and trust results in engaged employees who forge great relationships with customers.

EMT is responsible for corporate decision-making, including the strategic vision, investment strategy, allocation of enterprise resources and resolution of major strategic issues.

All executives, with the exception of the President and CEO, are paid within salary ranges and compensation policies approved by the FCC Board of Directors. The Governor in Council establishes the President and CEO's compensation. All executives receive a variable pay-at-risk component linked to the performance of the corporation, division and individual. In 2011-12, the salary range for the President and CEO was set at $286,300 to $336,800. The salary range for Executive Vice-Presidents was $180,725 to $326,985. The salary range for Senior Vice-Presidents was $154,955 to $236,990.

FCC Rosemary Davis Award

Martine Bourgeois
Poultry nutrition manager, egg producer, agriculture industry leader

Saint-Ours, Quebec

Katherine Elaine Buckley
Research scientist, green champion, educator

Brandon, Manitoba

Betty Lou Scott
Cattle producer, 4-H Leader, volunteer

Salt Springs, Nova Scotia

Judy Shaw
Agriculture industry leader, communicator, visionary

Guelph, Ontario

Bonnie Spragg
Hog producer, food processor and developer

Rosemary, Alberta

As agriculture continues to evolve, so does the face of the industry. More and more women are being recognized for their innovation and leadership in the field. This year, we are proud to honour five of these outstanding women as the 2012 winners of the FCC Rosemary Davis Award.

The award is presented annually to women across Canada who serve as role models to others in the agriculture industry. Successful producers, agrologists, mentors, educators, agribusiness operators and volunteers, these women display a knowledge and passion for agriculture that is second to none.

This award is named for Rosemary Davis, the first woman to chair the FCC Board of Directors. FCC is proud to honour her contributions to the industry as a successful agribusiness owner and operator.

Corporate social responsibility

The annual FCC Drive Away Hunger program rolls through communities across Canada.

At FCC, we take corporate social responsibility seriously. It's part of our corporate vision and guides how we operate.

We give back to the communities where our customers and employees live and work, strive to reduce our environmental impact and contribute to the success of the Canadian agriculture industry.

Being socially responsible is important to our customers, employees, communities and the Government of Canada. We're committed to conducting business in a responsible and sustainable manner and being accountable to our stakeholders through sound corporate governance practices.

At FCC, our corporate social responsibility framework comprises five focus areas.

Agriculture and food

We support the development of a sustainable, competitive and innovative Canadian agriculture industry by providing knowledge and education and by supporting initiatives and forming partnerships that advance the business of agriculture.

2011-12 highlight: We offered 265 learning events to help 27,126 customers succeed in this ever-evolving industry. These free events covered a variety of key topics, including vision and goal-setting, hiring and keeping employees, transferring the farm and estate planning.

Community

We foster strong and vibrant communities where our customers and employees live and work, with a focus on rural Canada.

2011-12 highlight: Through the FCC Drive Away Hunger program, we work with communities and partners to collect food each year for those who need it most. In 2011, the program collected 2.4 million pounds of food for Canadian food banks. Since its inception in 2004, the FCC Drive Away Hunger program has collected 7.8 million pounds of food.

Customers

We focus on primary producers as well as suppliers and processors along the agriculture value chain. We provide our customers with flexible, competitively priced financing, insurance, software, learning programs and other business services.

2011-12 highlight: When our customers face crises, we're there to help with the FCC Ag Crisis Fund. The fund enables our employees to request support for individual customers to deal with issues such as serious illnesses, natural disasters, fires or farm accidents. In 2011-12, the fund provided $285,750 to support 179 customers. It also provided $37,000 to support community disaster relief projects across the country.

Employees

We foster a culture of accountability, partnership and diversity and deliver an exceptional employee experience.

2011-12 highlight: FCC strives to have a workforce that reflects the Canadian population. We launched the FCC Aboriginal Student Empowerment Fund to help Aboriginal students succeed in their studies and encourage them to consider FCC as a career. The fund is open to Aboriginal students attending one of four southern Saskatchewan post-secondary institutions: First Nations University of Canada, University of Regina, Saskatchewan Indian Institute of Technologies and Saskatchewan Institute of Applied Science and Technology (Wascana and Palliser campuses). The fund targets students enrolled in areas where FCC hires and makes available up to $1,000 for basic needs during the semester. Eligibility is based on need. In 2011-12, the fund assisted 26 Aboriginal students.

Environment

We improve our environmental performance and support the industry with tools and knowledge to do the same.

2011-12 highlight: FCC Enviro and Energy loan products help customers enhance their environmental performance and reduce environmental risk. In 2011-12, we loaned $836,659 through the Enviro-Loan, which allows customers to defer principal payments while constructing, improving or expanding their operations to improve environmental facilities. We loaned $26.7 million through the Energy Loan, which helps customers convert to renewable energy sources such as biogas, geothermal, wind or solar power.

FCC corporate social responsibility report

The first FCC corporate social responsibility report was issued in 2011, covering the 2010-11 fiscal year. The report was prepared using the Global Reporting Initiative G3 Sustainability Reporting Guidelines. The Global Reporting Initiative is a non-profit organization that promotes economic sustainability. It provides a comprehensive sustainability reporting framework that is widely used around the world.

The 2010-11 FCC Corporate Social Responsibility Report is available at www.fcc.ca/csrreport.

The 2011-12 FCC Corporate Social Responsibility Report will be issued in the fall of 2012.

Each year, FCC hosts 10 customer forums across the country. Industry experts and celebrity speakers share stories of success, inspiration and overcoming challenges.

Management's discussion and analysis

Caution regarding forward-looking statements

This management's discussion and analysis (MD&A) includes forward-looking financial information based on certain assumptions that reflect management's planned course of action with the most probable set of economic conditions. By their nature, assumptions are subject to inherent risks and uncertainties. There is significant risk that actual results may vary and that the differences may be material. Some factors that could cause such differences include changes in general economic and market conditions, including, but not limited to, interest rates.

Basis of preparation of financial information

FCC's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These are the corporation's first annual financial statements prepared in accordance with IFRS. The impact to the corporation of the transition to IFRS is outlined in Note 3 of the Consolidated Financial Statements. The financial information included in the MD&A for the years ending March 31, 2012, and March 31, 2011, is derived either directly from FCC's consolidated IFRS financial statements or from information FCC has used to prepare them. FCC has used the IFRS Practice Statement Management Commentary and the accompanying Basis for Conclusions document as guides for preparing its MD&A. The MD&A is intended to be read in conjunction with the March 31, 2012, Consolidated Financial Statements and the corporate plan documents.

Industry overview

FCC operates in the agriculture and finance industries. Both are shaped by market forces and global trends, and both are growing more diverse and complex. Worldwide demand for safe, sustainably produced food is rising, as is concern for the environment and an interest in finding alternative uses for agriculture products. Canadian producers and agribusiness owners are experiencing growing global demand for their products as well as volatile financial and market conditions. Knowledge and opinions about these issues vary and are instantly shared through social media and the Internet, as well as traditional media.

It is interesting to note that Canadian producers and agribusiness operators are largely positive about their industry. A 2011 poll of the FCC Vision Panel[5] revealed that optimism is at an all-time high due to a combination of strong agriculture commodity prices and demand, both domestically and internationally. Of those surveyed, 80% said they believed that their farms or businesses will be better off in five years. More than 75% of Canadian producers reported being better off than they were five years ago and they have higher expectations for future growth than in the past. Fifty-eight per cent of producers are planning to expand and/or diversify their operations in the next five years. Two forward-looking reports support the optimism of the FCC Vision Panel. Agriculture and Agri-Food Canada's (AAFC) Medium Term Outlook for Canadian Agriculture 2011-2021 and the United States Department of Agriculture (USDA) Agricultural Projections to 2021 paint a positive picture over the next 10 years. This is not to say that everything is rosy. The industry will continue to face challenges, such as the cycles inherent in agriculture, which vary considerably from one sector to another. The difference is that opportunities are much more diverse, largely from growing populations and increasing global demand, and producers and agribusiness operators are more and more savvy about harnessing the power of marketing, efficiency and technology to capitalize on these opportunities.

Global trends

Whether the products of the Canadian agriculture and agri-food industry are destined for export or domestic markets, the industry is affected by global business trends. FCC continues to monitor those trends.

As incomes rise in developing countries, diets are becoming more diverse as citizens are consuming more meat and dairy. Demographics throughout the world are changing. Populations are aging in western nations, while developing countries continue to see significant population growth – trends that will further alter the dynamics of food demand. Potential demand for Canadian products in emerging markets is increasing. Canada can capitalize on these opportunities to export more food, feed and fibre.

Increased attention is being focused on the cost of energy. The demand for energy is expected to increase by as much as 30% to 35% in the next 25 years. This would significantly affect producers and agribusiness operators, who are already working to make their operations more energy efficient. Others are producing energy and selling any surplus to the grid.

By monitoring long-term global economic and demographic trends, we can examine scenarios for future Canadian farm income. Rising world demand for food is positive for Canadian agriculture. The continued expansion of market access for Canadian agri-food products will result in new market opportunities. Increasing energy costs will result in higher input costs for the industry. The relatively strong financial position of Canada and the agriculture industry will allow producers and agribusiness operators to adopt more energy-efficient technology and use inputs more efficiently.

[5] The FCC Vision Panel is a national FCC research panel with more than 9,000 members from across Canada. Members are involved in primary production, various levels of agribusiness and agri-food, and other businesses with a direct association with the agriculture industry.

Key economic indicators

The Canadian economy emerged from the last recession in a relatively good position. Canada's gross domestic product (GDP) is at a point in the business cycle where it is expanding beyond the peak reached prior to the beginning of the recession in 2008. Canada benefits from a solid banking sector, productive human resources, excellent infrastructure and highly efficient financial markets. The strength of the Canadian economy partly rests on strong external demand for Canada's plentiful natural resources and commodities.

Globally, economic recovery is primarily driven by consumer spending, business investments and trade. Despite relatively high unemployment in many countries, the Organisation for Economic Co-operation and Development (OECD) believes that the global economic recovery is self-sustaining.[6] However, risks to the world economy include unrest in the Middle East and rising oil prices, sovereign debt issues in Europe and slower economic growth in key emerging markets.

A weak labour market in the United States and potential increases in oil prices could create a significant drag on economic growth because the U.S. economy is driven by consumer expenditures. Nevertheless, it is expected that U.S. demand for Canadian products will increase moderately in the next year. The sovereign debt crisis in Europe has forced many countries to implement strong austerity measures. Deteriorating economic conditions in Europe can have spillover effects in emerging markets such as China. While 2012 economic growth in China is not expected to be as strong as it was in recent years, consumer disposable income will continue to climb throughout the emerging world. This will create export opportunities for Canada. As demand for agriculture and agri-food products continually evolves, FCC must also evolve its products and services to allow customers to take advantage of opportunities in the marketplace and remain competitive.

Canada is seen as a leader in growth among industrialized economies, yet significant risks to the world economy could lower economic growth in Canada. Economic forecasts by the Bank of Canada indicate that Canada's annualized GDP growth could be around 2.4% in 2012 and 2013.[7]

Canada's banking system continues to be an example to the world since the global economic crisis and is demonstrating increased strength. Global financial institutions are focused on more conservative risk policies and reduced operating costs.

Interest rates are at near-record lows. The Bank of Canada's recent policy statement noted that stimulus will have to be eventually withdrawn, opening the door for a potential increase in the overnight rate in late 2012. The Bank of Canada's monetary policy will ultimately be dictated by the strength of the Canadian economy. FCC is monitoring changes in inflation and economic growth prospects to remain informed about future financial market scenarios.

Despite the challenges that economies around the world are expected to face, the Conference Board of Canada expects that commodity prices for agriculture products, mining and oil will remain strong through 2012. The combination of strong commodity prices and low interest rates can create growth opportunities for agriculture and agri-food operations and result in strong demand for FCC's products and services.

One of the federal government's priorities is a return to balanced budgets through various means, including reviews of government administrative functions, programs and overhead costs to improve efficiency and effectiveness. The government has requested that all areas of government control costs, including Crown corporations. FCC is committed to adhering to the spirit and intent of the federal Deficit Reduction Action Plan. As well, the corporation is further quantifying the potential impacts of unexpected global, agricultural and domestic economic environments on its portfolio and balance sheet.

[6] OECD (2011), OECD Economic Outlook, Vol. 2011/1, OECD Publishing | doi: 10.1787/eco_outlook-v2011-1-en

[7] Bank of Canada, Monetary Policy Report, April 18, 2012 | www.bankofcanada.ca/2012/04/speeches/opening-statement-88/

Agriculture industry overview

In 2011, overall growth in food demand was positive for Canadian agriculture. Farm assets, including farmland, appreciated in value. Farm cash receipts and input prices have both increased, while the value of the Canadian dollar relative to the U.S. dollar has remained strong. The following offers a brief overview of these financial factors as well as observations specific to some sectors.

Farm debt

Farm debt levels are a commonly debated topic, particularly in light of economic outlooks in the short and long term. Canadian farm debt has mainly increased at the rate of inflation, except for farms with annual sales larger than $500,000 in supply-managed sectors. During the five years between 2005 and 2010, the equity of all Canadian farms increased by $70.5 billion.[8] However, the debt-to-equity ratio remained stable. The value of agriculture assets has grown concurrently with the increase in debt, so industry leverage has, therefore, remained relatively stable. More importantly, although farm liabilities increased by 32% between 2005 and 2010, total net cash income increased by 42%. This suggests that Canadian agriculture operations are using debt to improve profitability and are positioned to maintain competitiveness with current debt levels.

Farmland values

Twice a year, FCC releases its Farmland Values Report, which highlights changes in land values in each province as well as nationally. Farmland values have steadily increased during the last decade. Prior to 2011, the highest average national increase was 7.7% in 2008.

Annual change in farmland values

	Jan. 1 – Dec. 31, 2011	Jan. 1 – Dec. 31, 2010
Canada	**14.8%**	**5.2%**
Alberta	8.7%	4.4%
British Columbia	0.2%	(0.5%)
Manitoba	4.3%	4.7%
New Brunswick	1.3%	2.4%
Newfoundland	0.0%	0.7%
Nova Scotia	6.2%	3.7%
Ontario	14.3%	6.8%
Prince Edward Island	1.5%	3.2%
Quebec	8.9%	3.2%
Saskatchewan	22.9%	5.7%

Overall primary agriculture profitability

While the number of Canadian farms has decreased over the last decade, the total value of production and real net operating income per farm has increased. For most enterprises, 2011 was a profitable year. Compared to 2010, total farm cash receipts (crop and livestock revenues, plus program payments) in 2011 improved for many enterprises, especially grains and oilseeds. Total farm cash receipts increased by 11.2% in 2011, after declining in both 2009 and 2010. Farm cash receipts were higher in every province, with increases ranging between 0.8% in Manitoba to 19.5% in Saskatchewan.

In comparison, farm input costs increased by 9.9% between the third quarter of 2010 and the third quarter of 2011, according to Statistics Canada. Agricultural input prices are expected to continue to increase in 2012, as suggested by leading indicators such as oil and gas prices. Conversely, AAFC's Medium Term Outlook for Canadian Agriculture 2011-2021 and USDA Agricultural Projections to 2021 suggest that crop prices will come down from their 2011 average. This would imply a minor decline in crop producers' profit margins in the next 12 months. Livestock prices are projected to remain above long-term averages, which may support profitability within some sectors of the livestock industry.

The agriculture and agri-food sector faced a number of challenges caused by a strong Canadian dollar, which averaged above parity with the U.S. dollar in 2011. The continued strength of the Canadian dollar makes Canadian products less competitive in world markets. Conversely, the strong Canadian dollar continues to provide an opportunity for businesses to increase productivity by investing in capital improvements.

[8] Statistics Canada, Table 002-0020, Balance sheet of the agricultural sector, at December 31

Trade

In 2011, the federal government made significant progress in improving potential market access abroad for Canadian products. Ongoing and future trade negotiations are likely to create even more trade opportunities for agriculture producers and agribusiness operators.

The federal government expressed its desire to join the Trans-Pacific Partnership in November 2011 as a means to increase trade flows with Asia-Pacific countries and reduce Canada's export dependence on the United States. As a result of the announcement, there has been speculation regarding the future health and protection of the supply-managed sectors.

The World Trade Organization has ruled against the U.S. country of origin labelling (COOL) policy on meat products. The United States has appealed the WTO decision. Until the trade dispute is resolved, COOL will continue to affect livestock exports from Canada to the United States. It is unlikely that this issue will be resolved in 2012.

South Korea is now allowing imports of Canadian beef under the age of 30 months after banning them due to BSE (bovine spongiform encephalopathy) nearly nine years ago. This will help to spur increased demand in 2012, and it is estimated that beef exports could reach $30 million by 2015.

Sector overview

Dairy

Dairy producers in Canada are expected to remain strong and viable. Each year, the Canadian Dairy Commission reviews and, if necessary, adjusts dairy support prices to ensure that dairy producers are receiving a fair price for milk. Due to higher feed and fuel costs, support prices for skim milk powder and butter have increased recently and are expected to offset higher input costs. Looking forward, AAFC's Medium Term Outlook for Canadian Agriculture 2011-2021 forecasts that per capita consumption of whole milk, butter and ice cream will experience declines of over 10% from 2010 to 2015, while yogurt per capita consumption will increase 10% over the same time period.

Poultry

In 2011, demand for chicken increased faster than production primarily due to improvements in the Canadian economy. Canadian chicken consumption increased by 2.3% during the first nine months of 2011 compared to 2010. Over the same time period, chicken production increased by 0.8%.[9]

Trends

Consumers are increasingly preoccupied with food safety, and some interest groups are expressing concern about the treatment of animals. Codes of practice, industry regulations, advances in traceability and transparency are all part of ensuring a sustainable supply-managed industry in Canada. As mentioned above, recent trade talks have led to media coverage about the future of supply management. At this point, it is speculation. Producers remain prudent about how they manage their operations so that they are positioned for future success.

Cattle

Despite the challenges that have resulted from COOL, the beef industry has continued to recover. Both domestic and foreign beef demand was strong in 2011 and to the end of March 2012. The total Canadian cattle inventory, including both dairy and beef cattle, was 0.5% higher – the first increase in seven years. The number of beef cows declined slightly. However, this decrease was more than offset by increases in the number of calves and heifers retained for breeding. Increased heifer retention lowered the number of cattle available for slaughter. The number of beef producers in Canada continued to decline for a number of reasons, including steady increases in production costs and increased competition for acreage. Domestic slaughter was 7.5% lower in 2011 than in 2010, and exports of cattle were 35% lower. Declining North American beef cattle numbers coupled with strong demand generated increases in both cattle prices and profit margins, particularly for cow-calf producers.[10]

[9] Alberta Chicken Producers | www.chicken.ab.ca

[10] www5.statcan.gc.ca/access_acces/alternative_alternatif.action?l=eng&loc=www.statcan.gc.ca/pub/23-012-x/23-012-x2011002-eng.pdf&t=Cattle%20Statistics

Hogs

The hog industry continues to improve as both domestic and foreign demand was strong in 2011 and early 2012. Canadian hog inventories increased marginally in 2011, which was the first time since April 2006. Due to the current low inventory of hogs in Canada, total hog slaughter was down approximately 2% in 2011 compared to 2010, and exports were 1% higher over the same time frame. Reduced overall inventories of hogs in both Canada and the United States have contributed to strengthening prices. High feed and input costs and the strong Canadian dollar relative to the U.S. dollar continue to put pressure on producer profit margins.

Trends

As the price of feed is a key determinant of profitability in the red meats sector, the industry is closely monitoring commodity price volatility with a focus on managing price risk. Based on industry and consumer demand and animal welfare trends in Europe and the United States, hog gestation stalls may be replaced in the future by group housing.

Grains and oilseeds

Grain and oilseed yields and quality for 2011 were average to above average in most of Canada. As a result, most grain and oilseed producers realized the benefit of the strong agriculture commodity prices. However, some areas of Manitoba and southeastern Saskatchewan received above-average precipitation or flooding in 2011 that reduced their total harvested acres.

According to both AAFC's Medium Term Outlook for Canadian Agriculture 2011-2021 and the USDA Agricultural Projections to 2021, prices for grains and oilseeds will be slightly lower than the 2011 record highs, but will remain high in a historical context over the next 10 years. This will be driven by increases in demand for coarse grains and oilseeds by developing countries such as China. Domestically, livestock producers, biofuel manufacturers and vegetable oil crushers also contribute to demand. In 2010, the low carry-over of stocks, natural disasters and production issues in the former Soviet Union and many other parts of the world caused countries, notably China, to build stocks.

As of February 26, 2012, total exports of Canadian grains were 16% higher than the previous crop year, according to the Canadian Grain Commission.

Trends

In 2012, changes to wheat and barley marketing options are top of mind for western Canadian grain producers. Implications to the grain-handling sector are being closely watched as well. Land values and ownership are very much on the minds of crop producers. Unprecedented land values in parts of Canada are affecting decisions to expand or, in some cases, to exit farming.

Horticulture

The Canadian greenhouse industry is strengthening and expected to remain profitable. It relies heavily on exports to the U.S. market and has had to adjust to the high Canadian dollar. The greenhouse industry also faced high energy prices and increased competition from European exporters. The industry responded by increasing its competitiveness by switching to lower-priced natural gas for heating, adapting and incorporating environmental and resource-saving technologies and practices, and building and expanding relationships with retailers. Demand for greenhouse production is expected to grow as customers continue to demand fresh vegetables year round.

Trends

Energy is a key input cost in Canada's greenhouse industry. However, as natural gas prices trended lower in 2011, some operations have moved away from previous plans to expand renewable energy capabilities. Leading-edge technology is generally considered a necessary part of operation in this sector. Greenhouse owners are updating existing infrastructure as a result.

Agribusiness and agri-food

Due to the strong performance of primary agriculture producers, agribusinesses that supply inputs to primary agriculture have experienced strong demand for their products.

The overall performance of agri-food has been mixed as growth in overall Canadian GDP has slowed over the past few quarters. Consumer demand for value-added products is slowly increasing as the Canadian economy and others around the world continue to improve. As a result, there are increased opportunities for agri-food companies. However, these opportunities are not equal across all sectors. Due to the reduction in cattle and hog inventories in both Canada and the United States, competition among meat manufacturing companies has increased. Conversely, fruit and vegetable processing companies have experienced increases in production acres and expanding greenhouse facilities. A strong dollar continues to put pressures on Canadian food processors to increase productivity relative to U.S. competitors.

Trends

One of the most commonly cited issues in the agribusiness and agri-food sector is the growing regulatory challenge that agribusinesses face in bringing products to market and then moving them into global markets. This sector is working to make sense of the changing landscape of Canada's grain-handling industry, seeking to understand the opportunities and challenges posed by alternative wheat and barley marketing options.

Biofuels

On July 1, 2011, it became mandatory in Canada for biodiesel blends to average 2% renewable content in the distillate pool. Ethanol blends remain unchanged from December 2010 at 5%. The benefits to agriculture are increased local market prices and increased farm income, according to the Canadian Renewable Fuels Association. Other benefits include a decreased reliance on agricultural support from governments, a stable market for grains and oilseeds and a forward-pricing market for grain and oilseed producers.

Trends

The Canadian biofuels industry is challenged with understanding the impacts of North American mandates and subsidies and the future impacts of expiration or elimination. FCC's Knowledge Insider on Energy[11] refers to the emergence of a new energy landscape that will contain a mix of renewable and non-renewable energy sources and will focus on sustainability, efficiency and fit-for-purpose innovative technologies.

[11] Knowledge Insider – Energy: Volume 1, Issue 2 | www.fcc-fac.ca/en/learningcentre/knowledge/energy/energy_e.asp

Current and potential impacts for FCC

FCC has experienced significant growth every year for more than a decade. Revenue and administration expenses have grown in relation to FCC product and service offerings and its overall loan portfolio. Over the same period, FCC has realized improvements in efficiency while growing its loan portfolio. These improvements are projected to continue to trend favourably over the next five years. FCC understands the importance of prudent budget practices and sustained financial viability through all economic cycles in order to support customers through good and challenging times. Maintaining strong customer satisfaction and employee engagement are important to the continued success of the corporation in service of the agriculture and agri-food industry.

FCC remains financially strong. Along with $3,730.3 million in equity and loan loss reserves, the corporation has low debt-to-equity ratio and high-quality risk management practices. FCC's portfolio is diversified by enterprise and geography because the corporation finances customers involved in all areas of agriculture across Canada, which reduces risk.

Continued complexity in the agriculture industry translates into a need for enhanced knowledge, technical skills and competencies on the part of customers and FCC employees. FCC offers employees extensive access to sector and market knowledge and offers learning programs and publications free of charge to customers and non-customers.

Producers and agribusiness operators have a strong impetus for innovation and growth, and FCC will continue to provide the support required for success. Agility is a critical attribute for any business operating in this environment. FCC's unique connection to customers, industry, government, academia and business will help ensure that it is attuned to evolving needs, risks and opportunities.

FCC is beginning the next fiscal year in a strong financial position. It will continue to closely monitor external and internal financial trends, assess implications and create proactive strategies to address them. Risk levels will be diligently monitored to ensure that they continue to be within acceptable tolerances.

FCC's commitment to Canadian agriculture is unwavering. The corporation will continue to monitor and respond to economic conditions as needed to achieve its objectives and maintain financial strength.

Strategic overview

As Canada's leading agriculture lender, FCC is advancing the business of agriculture by providing financing, insurance, software, learning programs and other business services to producers and agribusiness and agri-food operations. FCC is financially strong and stable, and serves the industry through all cycles. Our employees are passionate about agriculture and committed to the success of our customers and the industry.

FCC's strategic direction is aligned with the Government of Canada and the 2011 Statement of Priorities received from the Minister of Agriculture and Agri-Food.

Corporate strategy map

FCC uses a corporate scorecard to monitor and measure progress against its corporate strategy. To achieve its vision and deliver on its mission, FCC has developed objectives and strategies that are categorized under four strategic themes:

- financial and risk management
- customer experience
- efficiency and execution
- employee experience

The FCC corporate strategy map illustrates how the 12 five-year strategic objectives within the strategic themes contribute to achieving the FCC vision and mission. The employee experience theme and its related objectives provide the foundation for the other three themes and their objectives.

Vision

The full agriculture value chain believes FCC is "advancing the business of agriculture".
We are "the" place to obtain financial products, services and knowledge tailored to producers and agribusiness operators.

Our customers are advocates of FCC and can't imagine doing business without us.

We are a socially and environmentally responsible corporation.

FCC is an employer of choice everywhere we operate.

We make it easy for customers and employees to do business.

We are financially strong and stable, and invest significantly in the agriculture and agri-food industry.

Mission

To enhance rural Canada by providing specialized and personalized business and financial solutions to farm families and agribusiness.*

Financial and risk management

- Enhance financial management
- Increase maturity of enterprise risk management (ERM), including internal control framework
- Strengthen and leverage FCC's reputation with all stakeholders

Customer experience

- Deliver an extraordinary customer experience
- Demonstrate commitment to the agriculture and agri-food industry, with a particular focus on producers and young farmers
- Promote agriculture as a dynamic industry that is important to Canada
- Expand FCC's ability to provide customers with leading-edge knowledge

Efficiency and execution

- Optimize how FCC conducts business
- Expand channel delivery

Employee experience

- Provide an exceptional employee experience
- Strengthen leadership capabilities
- Expand and enhance employee knowledge

Strategic themes

Five-year objectives

* This is an abridged version of the FCC mission. A complete version is at www.fcc.ca.

Report on corporate performance

Financial and risk management

FCC is financially viable and self-sustaining in the long term, while investing significantly in the agriculture industry and utilizing valuable partnerships.

Critical outcome

In 2020, FCC has a diversified agriculture, agribusiness and agri-food portfolio. The corporation has remained financially viable and self-sustaining, with a strong balance sheet and a return on equity (ROE) of ≥12%.

Summary of results

Over the past decade, FCC has grown its portfolio from $6.6 billion to more than $23 billion and its return on equity from 8.7% in 2001-02 to 20.9% in 2011-12. FCC has a diversified agriculture portfolio with lending in all provinces and sectors of agriculture. FCC continuously monitors the effectiveness of its portfolio diversification and evaluates its risk management practices, instilling confidence that its financial performance will be sustained well into the future. FCC has exceeded most targets under the financial and risk management theme, and projections show that the corporation is well on its way to achieving its long-term strategy, while remaining financially viable and self-sustaining.

Strategic objectives	Performance measures	2010-11		2011-12		Comments	2012-13	2013-14
		Target	Result	Target	Result		Target	Target
Enhance financial management	Net income	$318.4 million	$460.2 million*	$355.8 million	$565.1 million	Exceeded. Primarily due to lower-than-target provision for credit losses related to strong portfolio health, increased volume and other favourable variances.	$445.0 million	$467.7 million
	Return on equity	14.5%	20.4%*	13.9%	20.9%	Exceeded. Primarily due to higher-than-target net income.	13.9%	12.8%
	Debt-to-equity ratio	8.1:1	7.7:1*	6.9:1	7.1:1	Not achieved. Measure has not achieved the year-end target due to increased borrowing required to support higher volumes.	6.2:1	5.8:1
	Portfolio growth	7.7%	8.0%*	3.3%	8.4%	Exceeded. Primarily due to higher-than-target disbursements.	6.1%	6.6%
	To improve financial management practices, FCC conducted research with an external consultant on best practices in managing capital within the financial services industry. With this input, the corporation developed a capital management framework and an implementation schedule has been established for 2012-13. The framework will allow FCC to assess its capital needs on a risk-adjusted basis.							

* Further details on IFRS restatements are described in Note 3 of the Notes to Consolidated Financial Statements.

Strategic objectives	Performance measures	2010-11		2011-12		Comments	2012-13	2013-14
		Target	Result	Target	Result		Target	Target
Increase maturity of enterprise risk management (ERM), including internal control framework	Enterprise risk management (ERM) maturity measure	n/a		Create measure	FCC adopted a new ERM maturity measure based on KPMG's ERM maturity model and methodology. A baseline and targets will be set next fiscal.		Baseline ERM Maturity	Advance ERM maturity per plan
	Risk scoring and pricing system (RSPS) score stated as points[12] (The RSPS model considers three principal sets of risk predictors that model the risk of a loan defaulting)	n/a	n/a	770	804	Achieved. Note: the higher the score, the lower the likelihood customers will default on payments.	Primary[13] – Greater than or equal to 790	Primary – Greater than or equal to 790
							A&A[14] – Greater than or equal to 750	A&A – Greater than or equal to 750
	In 2011-12, FCC continued implementing its ERM framework, including preliminary work on its corporate risk appetite. To mitigate operational risk, the corporation developed an internal control framework policy and adopted a risk and control assessment methodology. In 2012-13, FCC will continue to implement the internal control framework, assess its ERM maturity, conduct a gap analysis and implement plans accordingly.							
Strengthen and leverage FCC's reputation with all stakeholders	Media favourability index[15]	7	9	7	13	Exceeded. In 2011-12, there were 2,930 stories in the media about FCC with a favourability score of 64. The global average for financial institutions is 51.	7	7
		*points above the global average for financial institutions					*points above the global average for financial institutions	
	FCC's national reputation program is a comprehensive, centralized and consistent approach to reputation management. In 2011-12, the corporation implemented the program, assessed current state business requirements and sourced software. FCC also published its first corporate social responsibility report at www.fcc-fac.ca/en/AboutUs/Responsibility/csr_full_report_e.asp.							

Note:

In 2011-12, the venture capital invested measure was removed. However, FCC continues to provide venture capital funding through its partner Avrio Ventures. Additional information on venture capital funding can be found on page 46.

* Further details on IFRS restatements are described in Note 3 of the Notes to Consolidated Financial Statements.

[12] RSPS score: definition on page 125.

[13] Primary = Primary production financing: definition on page 125.

[14] A&A = Agribusiness and agri-food financing: definition on page 123.

[15] Media favourability index: Leger Marketing measures FCC favourability quarterly using numbers, qualitative factors and other criteria. Performance is relative to the global average for financial institutions.

Customer experience

FCC delivers an extraordinary experience to customers, who are passionate advocates of FCC.

Critical outcome

In 2020, FCC continues to deliver an extraordinary experience to customers. As a result, the customer experience index score indicates that two out of three customers (65%) rate their experience with FCC as five out of five.

Summary of results

FCC has defined the customer experience as its key differentiator. The desired result is that customers feel that FCC is relationship-oriented, flexible, knowledgeable about agriculture and committed to the industry. FCC's strong emphasis on how employees deliver service has led to rising customer experience scores (from 53.97% in 2006-07 to 63.56% in 2011-12). This indicates that FCC continues to deliver an extraordinary experience to customers and is on track to meet the 2020 target of 65% of customers rating their experience with FCC as five out of five.

Strategic objectives	Performance measures	2010-11		2011-12		Comments	2012-13	2013-14
		Target	Result	Target	Result		Target	Target
Deliver an extraordinary customer experience	Customer experience index[16]	58.44	61.64	60.00	63.56	Exceeded.	60.50	61.00
	In 2011-12, FCC focused on enhancing the consistency of the customer experience at all locations throughout Canada through a detailed program of data-driven coaching. FCC conducted research through the FCC Vision Panel that helped to identify the three elements that differentiate FCC from all other providers in the market: personal relationship, industry knowledge and flexibility. These serve as the foundation for future customer experience initiatives. In 2012-13, FCC will develop an interactive and online services program. This program will deliver a redesigned website and mobile presence, formally establish FCC's presence on social networks and improve partner online capabilities.							
Demonstrate commitment to the agriculture and agri-food industry, with a particular focus on producers and young farmers	Total lending to young farmers	$1.71 billion	$1.63 billion	$1.48 billion	$1.92 billion	Exceeded. FCC has disbursed over $10.5 billion to young farmers (63,000 loans) over the past seven years.	$1.74 billion	$1.89 billion
	Number of learning program participants	n/a	n/a	10,500	11,457	Exceeded.	11,500	11,750

[16] Customer experience index: this number is derived from customer surveys in areas such as satisfaction, loyalty, advocacy, ease of doing business and service resolution.

Strategic objectives	
Demonstrate commitment to the agriculture and agri-food industry, with a particular focus on producers and young farmers	FCC supports young farmers at every stage of their careers through finance and learning opportunities. FCC's Generation Ag initiative offers support for young farmers through these different stages, including programs for rural youth and ag colleges and universities, as well as flexible options for young farmers. The new Young Farmer Loan, officially launched in April 2012, will enhance FCC offerings to farmers who are under 40 years of age. Loan processing fees will be waived for loans up to a $500,000 maximum. Interest rates will be capped at prime plus 0.5% for the variable rate product. The Transition Loan is designed to assist in farm sales to young farmers, offering flexibility in payment options. FCC guarantees payment to the vendor with an option to disburse payments over five years. Campus programs for the next generation of agriculture include: • the FCC Go Ag! Program, which offers students enrolled in agriculture diploma or degree programs the opportunity to host a speaker for an educational event on their campus • FCC On Campus program, which integrates FCC Management Software learning with the curriculum at several ag colleges and universities across the country • FCC Business Planning Award, which provides a monetary award to agriculture students with the top business plans FCC is also a partner of 4-H Canada, Fédération de la relève agricole du Québec and Association des jeunes ruraux du Québec, as well as national and regional programs such as the Canadian Young Farmers' Forum and Canada's Outstanding Young Farmers' Program. In 2011-12, FCC renewed its commitment to 4-H through a new four-year partnership agreement and $250,000 annually to support 4-H and its annual speaking program. When challenges arise in the agriculture industry, FCC works with customers to provide support, as needed, such as flexible payments on existing loans and community crisis relief. In 2011-12, FCC proactively provided $37,000 to support community disaster-relief projects, mostly due to extreme flooding experienced by rural communities. FCC also helps customers who experience personal crises such as fire or critical illness with the FCC Ag Crisis Fund. In 2011-12, FCC helped 179 customers through short-term crises with $248,750 in support. In 2011-12, the FCC AgriSpirit fund provided $1 million to 120 rural community enhancement projects across Canada. Since 2006, FCC has offered a venture capital fund to Canadian agriculture to stimulate investment. In 2011-12, the corporation formalized an agreement to commit an additional $50 million to the industry through Avrio Fund II.
Promote agriculture as a dynamic industry that is important to Canada	Agriculture is a highly complex and globally competitive industry that is a vital and vibrant component of the Canadian economy. In 2011-12, FCC conducted research that revealed that both industry producers and the general public have less-than-positive perceptions about agriculture. There is a need to revitalize the industry and help shift perceptions. Through Agriculture More Than Ever, FCC plans to encourage farmers and other stakeholders to raise awareness about the importance of the agriculture industry. This is a multi-year initiative targeting industry, producers and the general public. More information is available at www.agmorethanever.org.
Expand FCC's ability to provide customers with leading-edge knowledge	FCC works to continually enhance employee knowledge, skills and experience to better serve its customers. In 2011-12, FCC provided webinars outlining knowledge expectations for employees, along with support and coaching tools. FCC's Knowledge Management team provided over 100 customized knowledge packages for employees to share with customers. Custom knowledge packages are tailored to the customer or prospect with information on their industry, questions to ponder and sources for more information. FCC produced two Knowledge Insider publications – one on globalization and the other on the bioeconomy – which were also posted on the FCC website.

Efficiency and execution

FCC's agility in decision-making processes and technical operational infrastructure makes it easy for customers and employees to do business.

Critical outcome

In 2020, FCC continues to be recognized as a highly efficient, effective and agile organization that is easy to do business with. The corporation has an efficiency ratio of 45% or lower.

Summary of results

FCC continues to identify ways to maximize corporate performance as it progresses to 2020. Two key measures indicate that FCC is headed in the right direction: FCC's efficiency ratio continues to improve; it decreased from nearly 60% in 1999 to 33.4% in 2012. FCC consistently attains its "easy to do business" indicators (increased from 74% in 2007 to 83% in 2012), which is to be greater than or equal to the average of the top 50 Canadian employers. This indicator measures how efficiently and effectively employees feel that they can accomplish their work. In addition, the business process and technology transformation program (BK) will enhance speed, reduce manual effort and provide the corporation with the capability to enhance agility in the technology arena.

Strategic objectives	Performance measures	2010-11		2011-12		Comments	2012-13	2013-14
		Target	Result	Target	Result		Target	Target
Optimize how FCC conducts business	Efficiency ratio[17]	41.6%	35.7%*	41.6%	33.4%	Exceeded. Primarily due to lower-than-target administrative expenses, compounded by favourable variances in net interest income and other income.	37.1%	37.0%
	Employee engagement index – easy to do business indicators[18]	Greater than or equal to the average of top 50 employers (2010 average: 78%)	79%	Greater than or equal to the average of top 50 employers	83%	Exceeded. The 2011 average score for Canada's top 50 employers was 78%.	Greater than or equal to the average of top 50 employers	Greater than or equal to the average of top 50 employers

* Further details on IFRS restatements are described in Note 3 of the Notes to Consolidated Financial Statements.

[17] Efficiency ratio: definition on page 124.

[18] FCC compares its performance to the average of the top 50 employers as measured by the Aon-Hewitt Best Employers in Canada annual study. Easy to do business indicators include co-workers, physical work environment, resources, work processes and work tasks.

Strategic objectives	
Optimize how FCC conducts business	FCC regularly challenges all areas of the corporation to find better ways to do business and meet customer expectations with respect to service delivery and speed. The most significant initiative in 2011-12 was the business process and technology transformation program (BK). The BK program will streamline and automate many business processes and support lending activities with more flexible technology. Although good progress was made in 2011-12, the program is behind schedule. As of March 31, after 63 months of operation, the BK program has spent $56.2 million and is 93% complete. The program experienced delays due to the complexity of defects and of highly integrated testing requirements. As a result and to ensure a high-quality product, the team retested all program components independently while fixing associated defects. The updated release date for the program is August 2012. The BK program remains aligned with our corporate business strategy. The external firm engaged by FCC has a fixed-bid contract, which means that their additional work is being performed at the same cost as originally contracted. The delays being experienced will not affect FCC's ability to meet its objectives as set out in the 2012-17 Corporate Plan, and the business case remains sound. FCC is committed to adhering to the spirit and intent of the federal government's deficit reduction action plan. In 2011-12, FCC moved forward on initiatives resulting from an optimization review undertaken to enhance the corporation's efficiency and effectiveness. Progress included changes to the travel and expense policy to align with Treasury Board of Canada Secretariat policies; and implementation of a Learning Management System and a Learning Content Management System that provide more online training opportunities and a central location for learning content; webinars being used rather than face-to-face meetings to reduce travel expenses; changes to processes for contracting outside services; changes to processes for mail preparation to reduce external service expenses; and, lower negotiated postage and courier rates. An Information Technology optimization project compiled a list of 21 short- and medium-term projects to be implemented in 2012-13.
Expand channel delivery	The channel delivery work ensures that the sales channel used by individual customers meets their needs efficiently and effectively. As part of the overall integrated channel strategy, FCC explored options for processing more loans through the Customer Service Centre (CSC). As a result, a national rollout to begin processing real property loans through the CSC was completed in 2011. As of March 31, 2012, the CSC had processed 312 real property loan applications, totalling $34.3 million.

Note:

In 2011-12, the project management maturity measure was removed at the corporate level as it is now a key measure at the operating level.

Employee experience

FCC is an employer of choice with a high-performance culture and strong employee engagement, which brings out the best in employees at all levels.

Critical outcome

In 2020, FCC continues to be an employer of choice with a culture that inspires employees to deliver an extraordinary customer experience. FCC's employee engagement score is greater than or equal to the average of the 50 Best Employers in Canada.

Summary of results

Research consistently shows that engaged employees deliver better customer service. This is why ensuring a positive employee experience is so important. FCC has already met the 2020 critical outcome and plans to sustain this performance in the future. This is evidenced by the fact that the employee engagement index and related scores have consistently been above the engagement score of the 50 Best Employers in Canada.

Strategic objectives	Performance measures	2010-11		2011-12		Comments	2012-13	2013-14
		Target	Result	Target	Result		Target	Target
Provide an exceptional employee experience	Employee engagement index[19]	Greater than or equal to the average of the top 50 employers (2010 average: 78%)	82%	Greater than or equal to the average of the top 50 employers	84%	Exceeded. The 2011 average score for Canada's top 50 employers was 78%.	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers
	FCC believes that a positive employee experience leads to an extraordinary customer experience. In 2011-12, FCC developed a three-year strategy to deepen the internal culture. FCC also launched a new online recognition system. In 2012-13, tactics associated with FCC's diversity strategy and employment equity plan will be implemented.							
Strengthen leadership capabilities	Employee engagement index – employee experience indicators[20]	Greater than or equal to the average of the top 50 employers (2010 average: 74%)	75%	Greater than or equal to the average of the top 50 employers	81%	Exceeded. The 2011 average score for Canada's top 50 employers was 75%.	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers
	Leadership index[21]	Greater than the average of the top 50 employers (2010 average: 71%)	73%	Greater than the average of the top 50 employers	78%	Exceeded. The 2011 average score for Canada's top 50 employers was 72%.	Greater than the average of the top 50 employers	Greater than the average of the top 50 employers
	Stellar leadership enhances the employee experience by inspiring performance, developing employees and ensuring that FCC continues to run a successful business. In 2011-12, 19 new leaders completed the Leadership Excellence program and all 26 eligible leaders completed the Five Leadership Principles program. All new and existing leaders have now completed these two programs.							

[19] FCC compares its performance to the average of the top 50 employers as measured by the Aon-Hewitt Best Employers in Canada annual study.

[20] Employee experience indicators include the average scores from the following measures: career opportunities, learning and development, intrinsic motivation, managing performance and work/life balance.

[21] Leadership indicators take the average score from the following drivers to calculate the leadership index score: senior leadership, manager, recognition, career opportunities and managing performance.

<table>
<tr><th rowspan="2">Strategic objectives</th><th rowspan="2">Performance measures</th><th colspan="2">2010-11</th><th colspan="2">2011-12</th><th rowspan="2">Comments</th><th>2012-13</th><th>2013-14</th></tr>
<tr><th>Target</th><th>Result</th><th>Target</th><th>Result</th><th>Target</th><th>Target</th></tr>
<tr><td rowspan="2">Expand and enhance employee knowledge</td><td>Learning measure</td><td>n/a</td><td>n/a</td><td colspan="2">Establish measure</td><td colspan="3">After a thorough investigation, it was determined that a meaningful measure could not be established.</td></tr>
<tr><td colspan="8">FCC's learning strategy consists of two main components: the Lending Essentials program that includes training to develop the skills and knowledge necessary for employees to serve customers and an initiative to improve employee access to specialized agriculture and financial knowledge via the intranet, Internet, collaboration tools and podcasts.

An in-depth review of the Lending Essentials program in 2011-12 resulted in several enhancements, including the completion of individual learning plans for customer-facing employees and the development of a coaching strategy to ensure that employees are equipped with the required knowledge and skills to meet customer needs.[22]</td></tr>
</table>

[22] Enhancements to the Lending Essentials program include the completion of individual learning plans for field employees, development of a coaching strategy, expansion of the program to include alliances and the Customer Service Centre, and migration of the initial 14 modules of Credit Policy training to the Learning Management System.

Financial performance review

Financial performance versus plan

Each year as part of its strategic planning process, FCC develops a comprehensive corporate plan, which includes targets for various financial measures for the coming fiscal year. The chart below provides a comparison of the actual outcomes against key plan targets for 2011-12.

(millions of dollars unless otherwise noted)	2012 Actual	2012 Plan
Portfolio growth		
Loans receivable	23,202.3	21,447.8
Loans receivable growth (%)	8.4	3.3
Net disbursements	7,116.8	5,386.7
Performance by non-lending business lines		
FCC Ventures		
Investments – cost	64.1	77.1
Investments – fair value	53.5	65.5
FCC Management Software		
Net sales revenue	1.9	1.9
FCC Insurance		
Insurance premium revenue	20.2	19.3
Net insurance income	11.9	9.6
Profitability		
Net interest income	797.3	738.9
Net interest margin (%)	3.44	3.37
Credit quality		
Impaired loans	285.1	300.3
Provision for credit losses	1.8	88.7
Allowance for credit losses	622.1	665.1
Efficiency		
Administration expense	283.5	312.2
Efficiency ratio (%)	33.4	41.6
Shareholder return		
Net income	565.1	355.8
Return on equity (%)	20.9	13.9

2011-12 was a strong year for FCC with all major financial measures exceeding plan targets. Record disbursements, favourable borrowing rates, continued improvement in the health of the portfolio, solid expense management and a large gain on the sale of a venture capital investment resulted in net income of $565.1 million compared to the plan target of $355.8 million.

Financial performance versus prior year and outlook

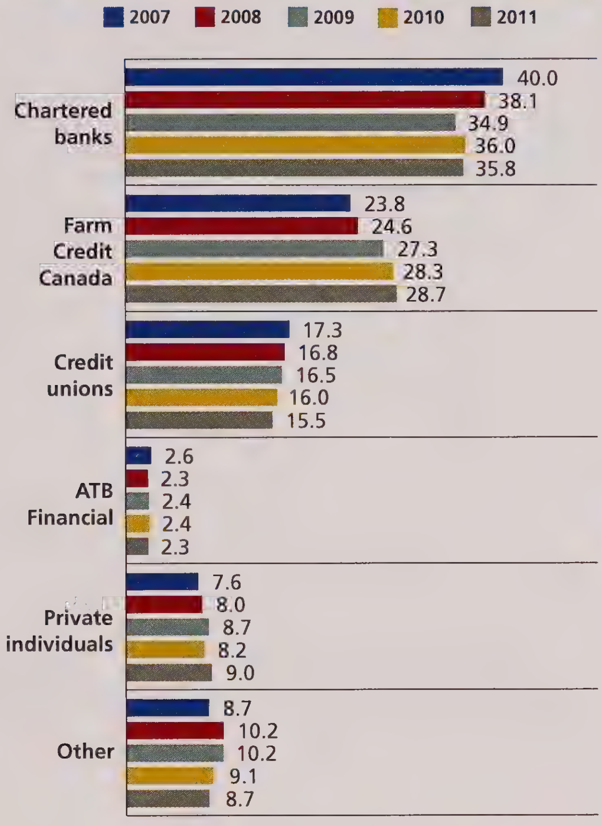
The remainder of the performance review section of the MD&A provides a review of year-over-year performance as well as FCC's expectations for 2012-13.

Portfolio growth

Market share

According to Statistics Canada, farm debt outstanding increased by 6.3% to $69.6 billion in 2011. FCC increased its market share by 0.4% to 28.7% in 2011. FCC's proportion of Canada's farm debt outstanding of $20.0 billion remains second to the chartered banks at $24.9 billion.

Market share as at December 31*



*Historical results are updated annually by Statistics Canada.

Lending activity

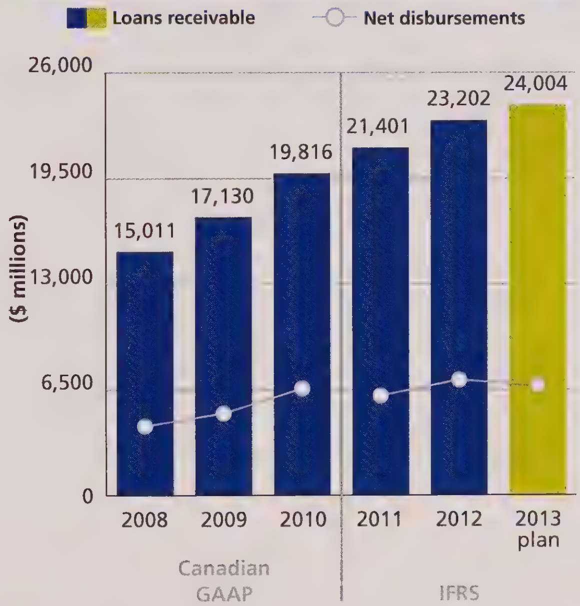
FCC's lending activity is conducted through its three business lines: primary production financing, agribusiness and agri-food financing, and FCC Alliances (refer to the Business Lines section on page 44).

In 2011-12, FCC experienced its 19th consecutive year of growth. Loans receivable increased by $1,801 million from $21,401 million in 2010-11 to $23,202 million in 2011-12. Loan portfolio growth was 8.4%, which is up from 2010-11 due to higher disbursement levels. Net disbursements increased compared to the prior year by $964 million, or 15.7%, to $7,117 million. Offsetting some of the portfolio growth was a 0.5% decrease in renewal rates to 97.2%, increased principal payments, and a 1.1% increase in prepayments to 6.5%.

The primary driver behind the growth in loans receivable was disbursements to primary producers in all major agriculture enterprises. Primary production and FCC Alliances financing constituted 84.9% of FCC's net disbursements in 2011-12.

Growth is expected to slow in 2012-13, with loans receivable increasing by 3.5% or $802 million. This can be attributed to a projected reduction in net disbursements of $355 million to $6,762 million. Renewal and prepayment rates are expected to decrease to 97.0% and 6.3% respectively.

Loans receivable*



*Loans receivable for 2008 through 2010 have been restated as a result of prior period adjustments.

Portfolio growth by enterprise

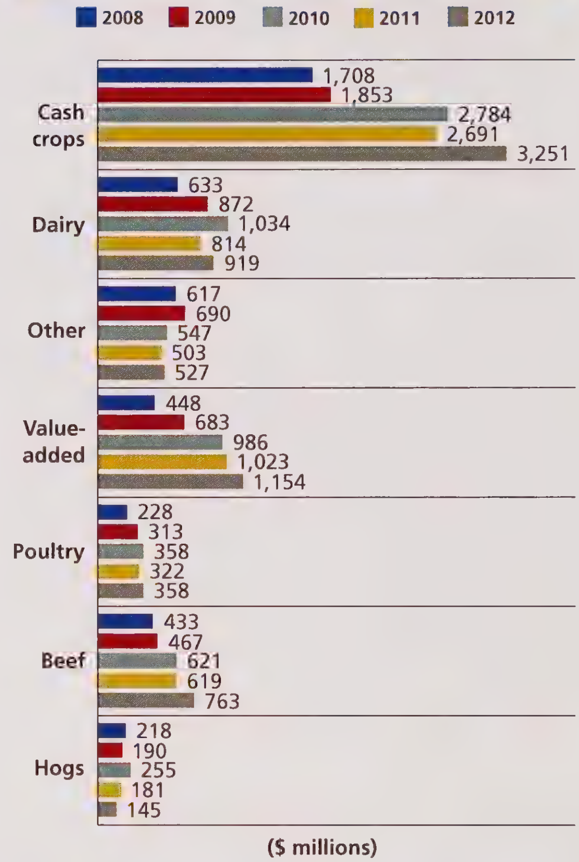
FCC lends to all agriculture enterprises, which diversifies its lending portfolio and reduces concentration risk. This practice aligns with the financial viability and enterprise risk strategic theme, since it helps FCC effectively manage risk and ensure its long-term viability.

In 2011-12, net disbursements increased, compared to the previous year, in all major enterprises except hogs, which experienced a decline of 19.9%. The most significant increase in net disbursements was in cash crops, which experienced an increase of $560 million.

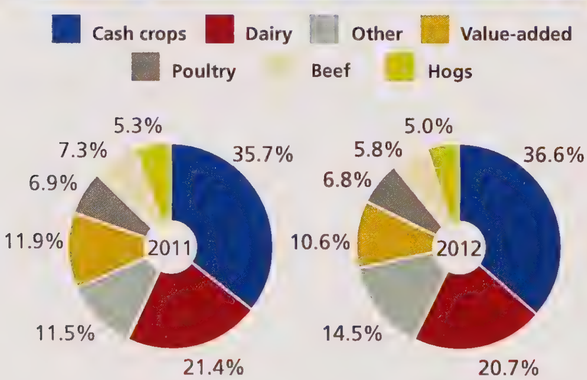
The positive impact to loans receivable from increased net disbursements in most major enterprises relative to 2010-11 was somewhat lessened due to increases in other portfolio activities, including increased principal prepayments and net repayments. However, FCC still experienced loans receivable growth in all sectors with the exception of beef and value-added. The beef and value-added sectors decreased to 5.8% and 10.6% of total loans receivable. The largest loans receivable year-over-year growth was in the cash crops and other sectors. Their respective shares of total loans receivable increased from 35.7% to 36.6% and 11.5% to 14.5%.

Cash crops continued to be the largest portion of FCC's loans receivable and net disbursements in 2011-12, representing 36.6% of total loans receivable.

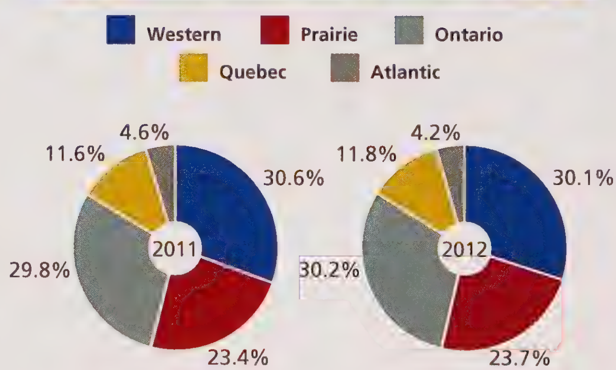
Net disbursements by enterprise



Loans receivable by enterprise



Loans receivable by area



Portfolio growth by geographic area

By lending to all agriculture sectors across Canada, FCC spreads risk geographically while promoting agriculture as a strong and vibrant industry.

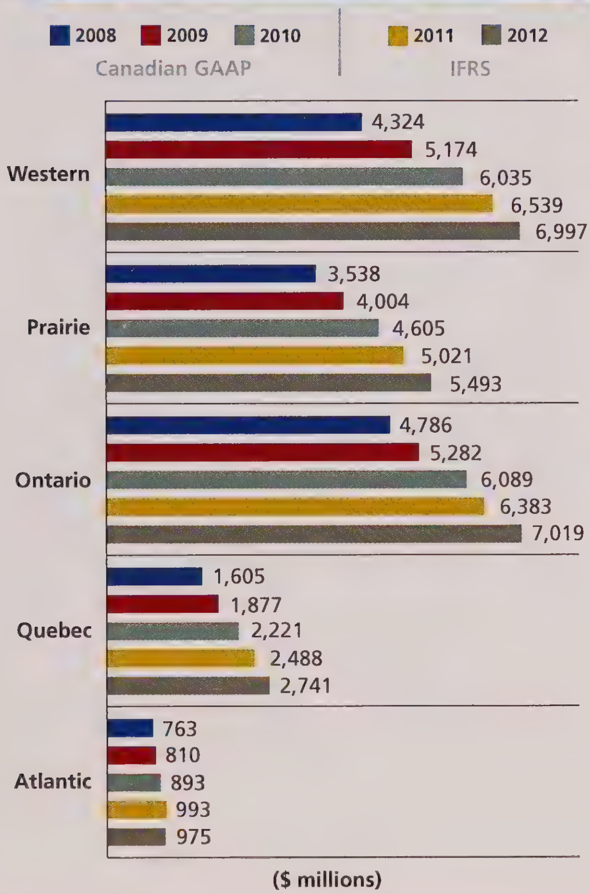
In 2011-12, FCC experienced loans receivable growth in all of its sales areas across Canada with the exception of Atlantic. The largest loans receivable growth areas were Quebec and Ontario, which experienced 10.2% and 10.0% growth respectively.

In 2011-12, net disbursements increased in the Western, Prairie and Ontario areas and decreased in the Quebec and Atlantic areas. The largest increase was in the Ontario area where net disbursements increased by 30.5%.

The Western and Prairie areas comprised over half of net disbursements and 53.8% of loans receivable. Their overall proportion of net disbursements increased by 1.5% to 59.4% from 2010-11.

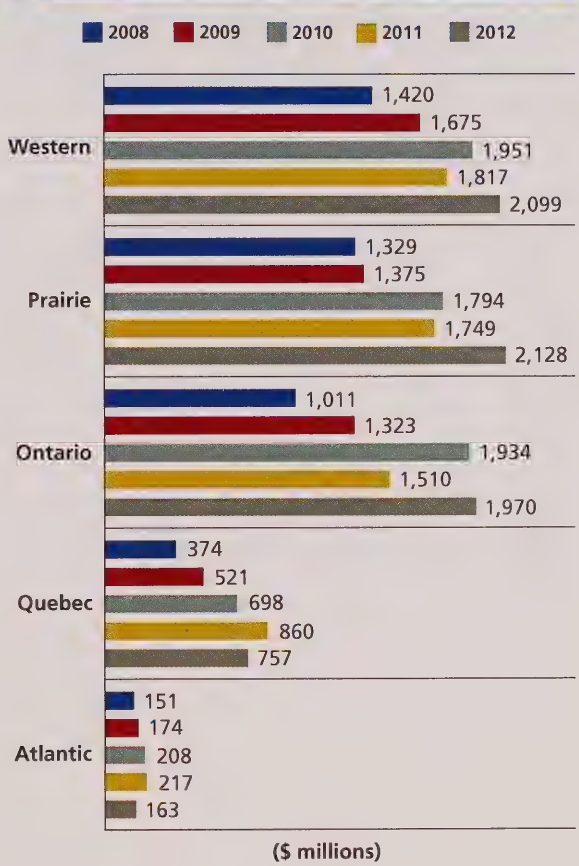
The Western area was the largest individual contributor to loans receivable in 2011-12, even though its respective share decreased by 0.5%. The respective share of the Ontario area increased by 0.4%.

Loans receivable by area*



*Excludes deferred loan fees.
*Loans receivable for 2008 through 2010 have been restated as a result of prior period adjustments.

Net disbursements by area



Business lines

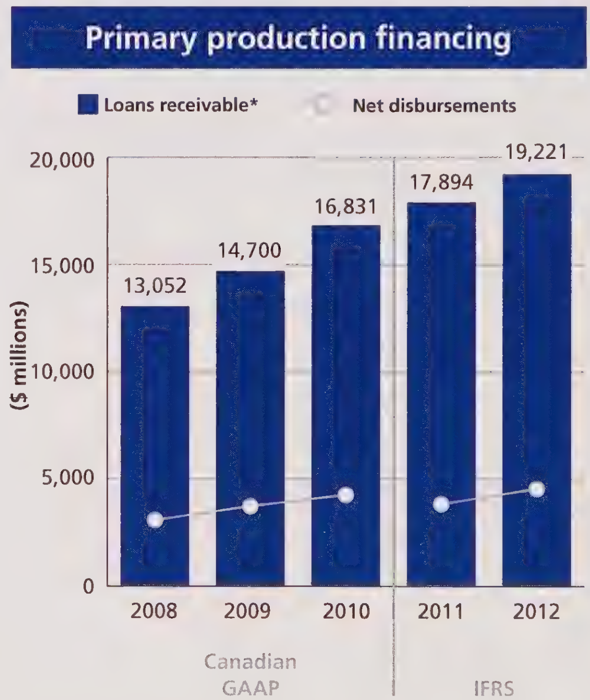
FCC offers a combination of financing, insurance, information and learning products and services, and management software to approximately 100,000 customers across Canada through its various business lines:

- primary production financing
- agribusiness and agri-food financing
- FCC Alliances
- FCC Ventures
- FCC Insurance
- FCC Learning
- FCC Management Software

Each business line has specific products tailored to address the needs of Canadian agriculture. Lending products include standard loans with variable or fixed interest rates and many term, amortization and payment frequency options. FCC also offers lending products that include features such as principal payment and/or interest deferral, secured and unsecured revolving loans that can be paid down and re-advanced as needed, interest rates tied to customer credit quality and customized payment schedules linked to typical sector-based cash flow patterns. Lending is available for real and personal property purposes through both loans and leases.

Primary production financing provides loans to primary producers and is FCC's largest business line. Customers with loans under this business line produce raw commodities in various enterprises such as crops, beef, hogs, poultry, sheep and dairy, as well as fruits, vegetables and alternative livestock. This business line also includes, but is not limited to, lending to vineyards, greenhouses, forestry and aquaculture.

Primary production comprised 82.8% of FCC's total loans receivable balance in 2011-12. Loans increased $1,327 million, resulting in a portfolio of $19,221 million. The rate of loans receivable growth increased to 7.4% from 6.3% the previous fiscal year. The primary driver in 2011-12 was the increase in net disbursements of 18.7% to $4,543 million.



*Excludes deferred loan fees.
*Loans receivable for 2008 through 2010 have been restated as a result of prior period adjustments.

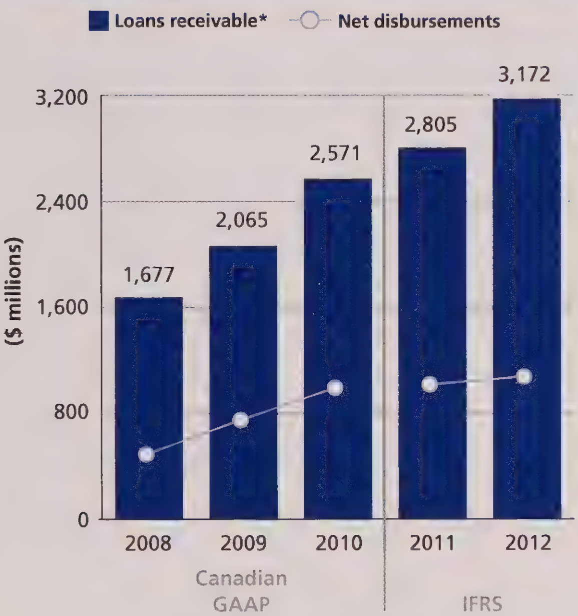
Agribusiness and agri-food financing provides loans to customers who support primary producers. These customers are typically suppliers or processors who sell to, buy from or otherwise serve primary agriculture producers. These customers include, but are not limited to, equipment manufacturers and dealers, input providers, wholesalers, marketing firms and processors.

Agribusiness and agri-food financing showed loans receivable growth of 13.1% to $3,172 million in 2011-12. Net disbursements increased by 5.8% to $1,078 million.

FCC Alliances is the largest contributor to FCC's point-of-sale business line, including financing for equipment, crop inputs and livestock. It lends to agriculture customers through a network of external agriculture or financial organizations including equipment dealers, crop input retailers, livestock operators and manufacturing partners. Through this network, FCC is able to provide efficient and effective products and services to their customers.

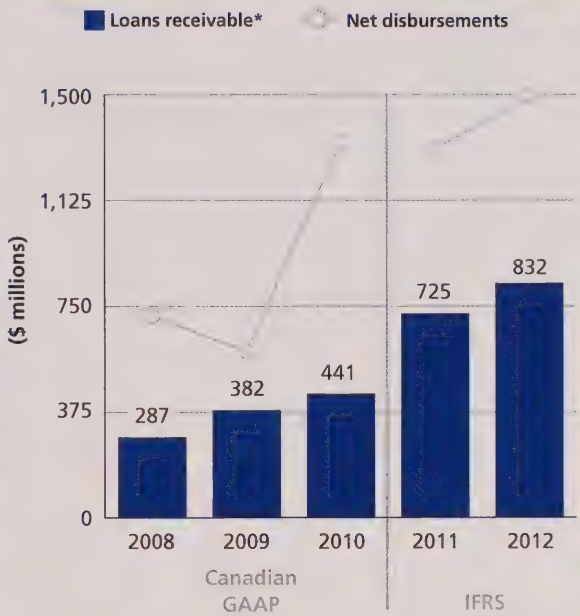
FCC Alliances showed loans receivable growth of 14.8% to $832 million in 2011-12. Net disbursements increased by 14.5% to $1,496 million. Disbursements during the year exceeded loans receivable at the end of the year due to the short-term nature of the lending products in this business line.

Agribusiness and agri-food financing



*Excludes deferred loan fees.
*Loans receivable for 2008 through 2010 have been restated as a result of prior period adjustments.

FCC Alliances



*Excludes deferred loan fees.
*Loans receivable for 2008 through 2010 have been restated as a result of prior period adjustments.

FCC Ventures is the corporation's venture capital business line, focused on addressing the need for alternative financing in the agriculture industry.

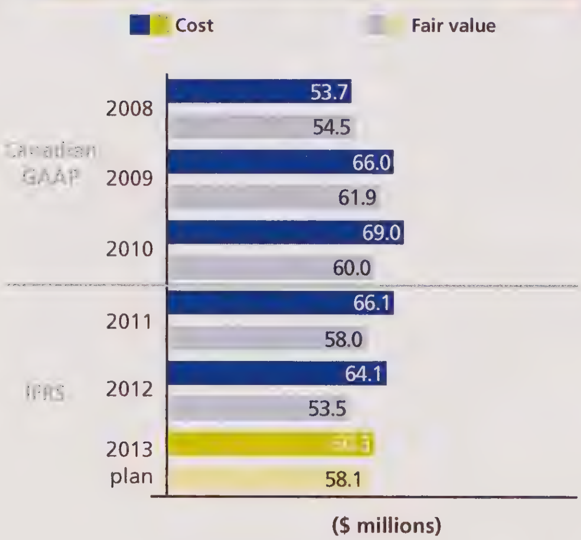
The venture capital portfolio includes direct investments held by FCC (FCC Fund) and investments held in two limited partnership funds managed by Avrio Ventures (Avrio Fund I & Avrio Fund II). The FCC Fund is closed and is winding down as investments are exited.

The investment objectives of the Avrio funds are focused on commercialization-to-growth or recapitalization of mature businesses in the industrial bio-products, nutraceutical ingredient, food and agricultural technology sectors. Avrio Fund I is now closed and future investments are limited to follow-on funds that may be required by existing investee companies. New investments will be made by Avrio Fund II, which was launched in April 2011 with a $50 million capital commitment from FCC. Additional capital from other investors is expected to be committed to this fund early next fiscal year.

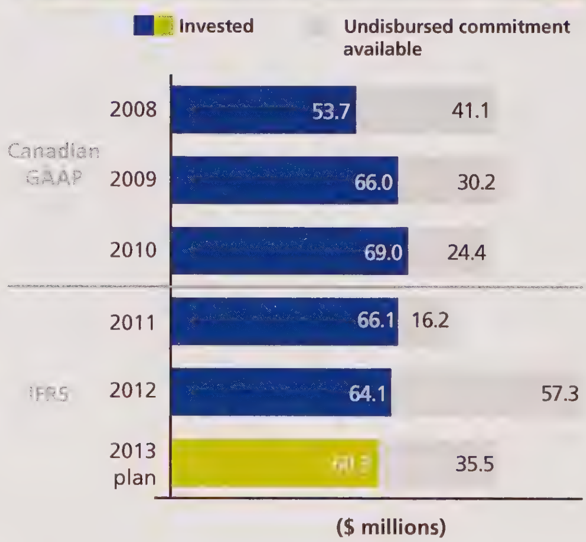
In 2011-12, FCC Ventures earned $33.1 million in income, primarily related to an investment gain on the sale of an investee company held in the FCC Fund. During the year, $8.5 million was invested bringing the total funding provided to the agriculture industry since inception of FCC Ventures to $118.3 million. In addition, co-investment partners have contributed another $173.6 million to the industry since inception. Further detail of the investment carrying value amounts can be found in Note 9 and Note 19 of the Notes to Consolidated Financial Statements.

The venture capital portfolio is expected to decrease slightly in the next year as maturity and divestiture of existing investments is expected to outpace the placement of new investments. FCC Ventures is pursuing investment in other funds in 2012-13 to further expand its venture capital offering to the industry.

Venture capital investments



Venture capital commitments



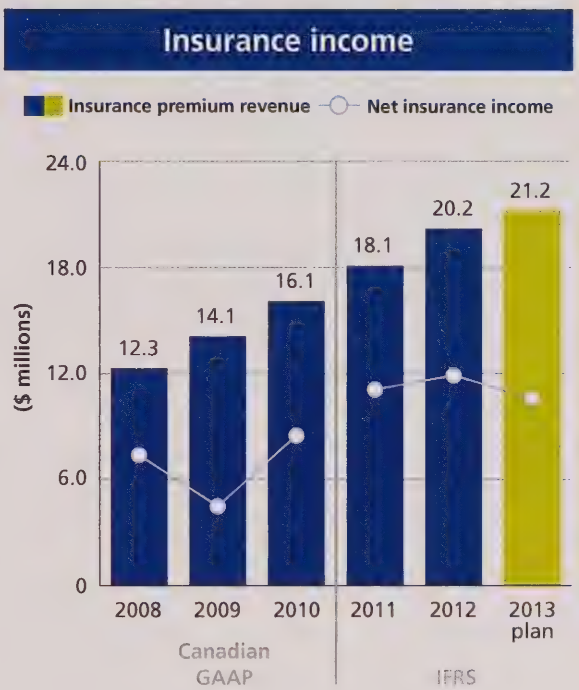
Venture capital investments outstanding at fair value

($ millions)	FCC Fund	Avrio Fund I	Avrio Fund II	Total
Balance March 31, 2011	$18.7	$39.3	$0.0	$58.0
Investments during the period	$0.0	$5.0	$3.5	$8.5
Repayments and divestitures during the period	($10.6)	$0.0	$0.0	($10.6)
Change in fair value	($5.3)	$2.7	$0.0	($2.6)
Change in accrued interest	($0.4)	$0.4	$0.2	$0.2
Balance March 31, 2012	$2.4	$47.4	$3.7	$53.5

FCC Insurance offers creditor life and accident insurance to provide protection to customers, their businesses and their families. Sun Life Assurance Company of Canada administers FCC's insurance programs.

Life insurance premiums, net of claims, contribute directly to FCC's net income. Insurance premium revenue has increased consistently over the last several years as a result of FCC's growing portfolio and specific emphasis on insurance coverage as part of a customer's complete loan package. Insurance premium revenue increased to $20.2 million in 2011-12, compared to $18.1 million in 2010-11. Net insurance income varies from year to year depending on the claims paid. In 2011-12, total incurred claims were $8.3 million, compared to $7.0 million the previous fiscal year, resulting in net insurance income of $11.9 million, compared to $11.1 million in 2010-11.

In 2012-13, insurance premium revenue is expected to increase by 5.0% as a result of continued portfolio growth, while net insurance income is expected to decrease by 10.9% as claim expenses are expected to normalize in 2012-13.



FCC Learning is FCC's information and learning program. It supports the corporation's commitment to continued investment in agriculture. In 2011-12, 11,457 people attended 172 core FCC Learning events, and 15,669 people participated in 93 events in FCC partner programs. FCC's e-learning program, which launched in July 2011, had 55,742 video views.

FCC offers several learning products aimed at addressing the increasingly sophisticated knowledge needs of primary producers and agribusiness operators. These products include:

- management workshops and learning tours
- FCC Forums
- partnership programs with industry partners
- AgriSuccess bi-monthly magazine
- FCC Express weekly email newsletter
- e-learning videos, webinars and podcasts

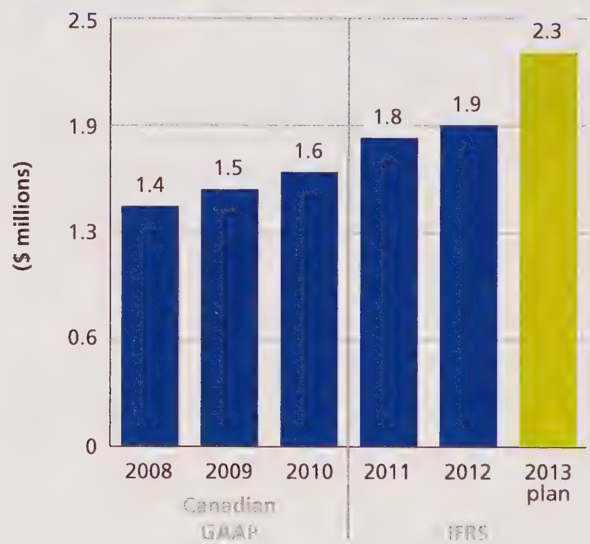
In 2012-13, FCC Learning is moving forward with a combination of e-learning and face-to-face events to meet the ever-changing business management needs of the agriculture industry.

FCC Management Software is focused on developing, promoting and improving farm management software for the Canadian agriculture industry.

FCC Management Software packages support the business of agriculture by providing valuable solutions to farmers that will help their success and viability. Its products include AgExpert Analyst, Field Manager PRO and Field Manager PRO 360. AgExpert Analyst is financial management software designed specifically for farmers. Field Manager PRO is a field record-keeping system for all types of crops. Field Manager PRO 360 has all the record-keeping advantages of Field Manager PRO with the additional ability to provide GIS imagery and to capture data from equipment with a GIS system.

In 2011-12, net sales revenue, including product support, increased by 5.6% to $1.9 million and is expected to reach $2.3 million in 2012-13 due to increased revenue expected from sales of Field Manager PRO 360.

Net sales revenue



Profitability

Net interest income and margin

Changes in net interest margin, along with changes in portfolio volume, are primarily responsible for the increase in net interest income. The net interest margin must cover credit risk and administration expenses, as well as yield a return sufficient for the corporation to fund future growth.

The following table contains historical interest rate spreads and net interest margins. Interest rate spreads are the difference between the interest rates earned on interest-earning assets and the interest rates paid on interest-bearing liabilities.

Net interest margin

	IFRS				Canadian GAAP					
	2012		2011		2010		2009		2008	
($ millions)	**Average balance**	**Rate**	Average balance	Rate	Average balance	Rate	Average balance	Rate	Average balance	Rate
Earning assets:										
Fixed loan principal balance	**7,173.4**	**5.52%**	6,388.1	6.01%	6,569.4	6.27%	7,170.2	6.50%	6,601.5	6.63%
Variable loan principal balance	**14,835.5**	**3.96%**	13,921.7	3.72%	11,769.9	3.09%	8,562.1	4.89%	7,523.8	6.84%
Investments	**1,017.6**	**1.05%**	995.9	0.80%	874.4	0.27%	711.1	2.49%	645.5	4.44%
Venture capital investments	**50.0**	**4.81%**	50.1	3.13%	57.8	6.06%	57.2	6.06%	54.4	6.44%
Total earning assets	**23,076.5**	**4.44%**	21,355.8	4.42%	19,271.5	4.17%	16,500.6	5.58%	14,825.2	6.72%
Total interest-bearing liabilities	**19,907.6**	**1.14%**	18,653.9	1.04%	16,918.4	1.15%	14,440.3	2.86%	12,879.0	4.36%
Total interest rate spread		**3.30%**		3.38%		3.02%		2.72%		2.36%
Impact of non-interest bearing items		**0.14%**		0.12%		0.14%		0.33%		0.58%
Net interest margin		**3.44%**		3.50%		3.16%		3.05%		2.94%

In 2010-11, there were several increases to the Bank of Canada overnight rate, which increased FCC's average variable interest rates. Since the Bank of Canada rate increases were staggered in 2010-11, the impact was not fully reflected in FCC's earning assets until 2011-12. Rates on fixed-rate lending decreased in 2011-12 relative to 2010-11 as new and renewing loans came into the portfolio at lower rates. Fixed interest rates decreased over the past few years due to the slow economic recovery. Interest rates on total earning assets increased from 2010-11 to 2011-12, primarily due to the impact of the staggered Bank of Canada rate increases on variable interest rates. The interest rates on FCC's debt increased due to increased borrowing costs, but was partially offset by reduced interest expenses arising from debt repurchases. In 2011-12, FCC repurchased an additional $59.3 million in capital market-debt which increased the current year expense by $10.9 million. This was more than offset by the $19.0 million reduction in expenses related to the amortization of fair value gains resulting from cumulative debt repurchases that occurred in prior years. The net impact in 2011-12 of all prior debt repurchases is an increase in net interest income of $8.1 million.

The following table outlines the year-over-year increases to net interest income and the changes caused by changes in portfolio volume and net interest margin.

FCC experienced growth over the previous year in net interest income. Net interest income increased by 6.3% to $797.3 million, and average total assets increased by 8.2% to $23,171.0 million due to the increase in loans receivable. Net interest margin saw a slight decrease of 0.06%. Net interest margin is expected to drop further to 3.41% in 2012-13. This is due to both an expected decrease in lending margins and an increase in the cost of debt relative to the lending rates. Even though FCC's margin decreased slightly in 2011-12, FCC's borrowing costs remained low as demand for government debt continued to remain strong. In 2012-13, interest rates and competition are anticipated to increase, resulting in decreased lending margins.

Net interest income and margin

($ millions)	IFRS			Canadian GAAP		
	2013 Plan	**2012**	2011	2010	2009	2008
Net interest income	829.6	**797.3**	750.1	609.9	508.0	434.4
Average total assets	24,303.5	**23,171.0**	21,423.7	19,291.2	16,649.9	14,764.7
Net interest margin (%)	3.41	**3.44**	3.50	3.16	3.05	2.94
Year-over-year change in net interest income due to:						
Increases in volume	35.5	**57.2**	–*	77.3	40.0	32.8
Changes in margin	(3.2)	**(10.0)**	–	24.6	33.7	(14.1)
Total change to net interest income	32.3	**47.2**	–	101.9	73.7	18.7

* Data from 2010 and 2011 is not comparable due to the transition to IFRS.

Non-interest income

Other income of $51.1 million was generated through its non-lending business lines, including FCC Ventures, FCC Insurance and FCC Management Software products and support sales. The $35.1 million increase over the prior year was primarily due to a $34.0 million gain on the sale of a venture capital investment. It is anticipated that further gains of approximately $7.1 million will be realized in future periods, subject to fulfilment of certain conditions of the sale agreement. Non-interest income is projected to normalize and is expected to be $12.9 million in 2012-13.

Credit quality

As part of FCC's strategy to deliver an extraordinary customer experience and support Canadian agriculture, the corporation continually monitors its portfolio and the industry to proactively identify and develop solutions to help customers through difficult times. FCC has developed customized programs to assist sectors experiencing unexpected challenges. FCC also provides several products that have payment deferral options, providing flexibility in payments to support customers in challenging times as well as in times of opportunity.

While these payment schedule adjustments are used to assist customers, it is important to note that customer assistance programs and payment deferral options may understate the impact of economic events on impaired loans. These programs offer the customer increased payment flexibility in a variety of ways, including enabling the customer to amend the payment schedule on a loan. The number of customers using these support programs and deferral options is closely monitored to gauge the overall health of the portfolio and ensure that proper risk management practices are employed.

FCC has sound business practices in place for analyzing credit quality and monitoring loans in arrears and impaired loans. From this analysis, FCC can better assess the appropriate level of allowance for credit losses and determine whether its risk is within the acceptable tolerances. In addition to the allowance for credit losses, FCC has the ability to withstand further losses due to its strong equity position.

The following discussion focuses on the impaired loans measure as it captures loans that have been in arrears for more than 90 days and have insufficient security to cover the balance owing on the loan.

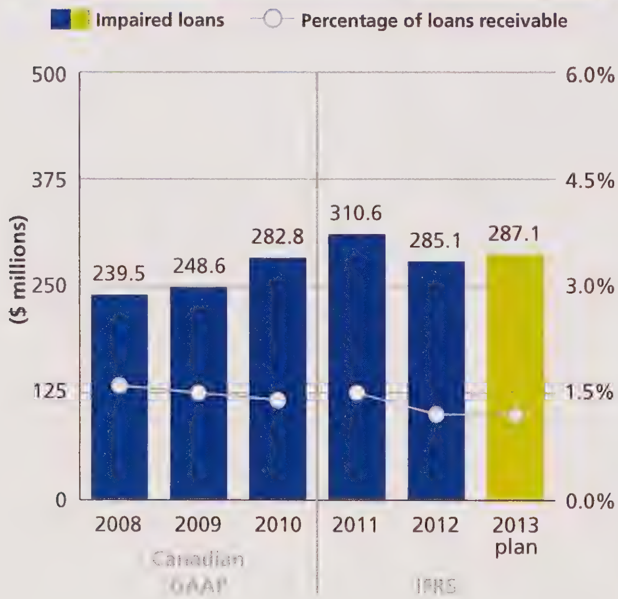
Impaired loans

In 2011-12, impaired loans decreased by $25.5 million from the previous fiscal year to $285.1 million. Impaired loans as a percentage of loans receivable decreased by 0.3% to 1.2%. In 2012-13, impaired loans are projected to increase by $2.0 million to $287.1 million due to growth in loans receivable.

At an enterprise level, cash crops and value-added enterprises experienced the largest year-over-year decreases of $28.5 million and $26.9 million respectively. Impaired loans for hogs experienced the largest year-over-year increase of $42.1 million to $104.9 million.

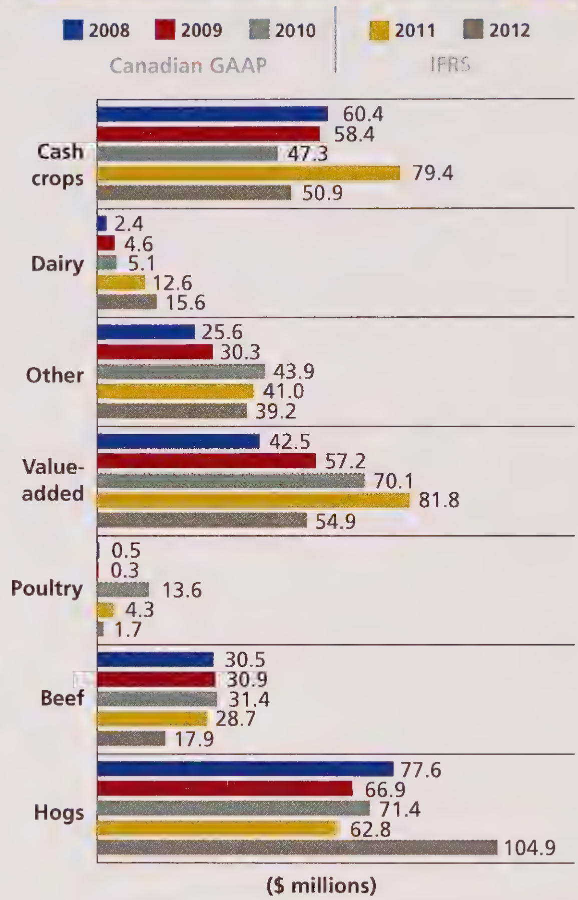
FCC customer support programs, discussed in the credit quality section, give FCC the opportunity to proactively provide support to individual customers and enterprises during financial difficulties. In 2011-12, FCC made 1,684 payment schedule adjustments, 241 of which were part of its enterprise-specific support programs. Payment schedule adjustments as a percentage of total loans receivable increased slightly to 3.4% in 2011-12.

Impaired loans*



*Impaired Loans for 2008 through 2010 have been restated as a result of prior period adjustments.

Impaired loans by enterprise*



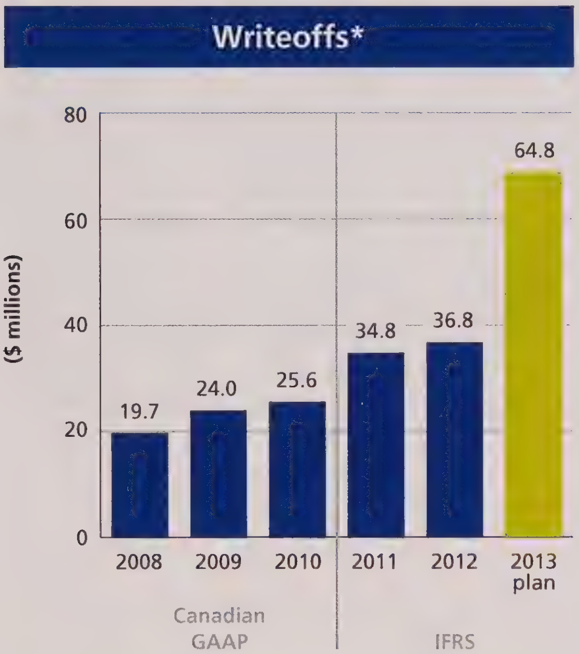
*Impaired Loans for 2008 through 2010 have been restated as a result of prior period adjustments.

Writeoffs

Loan amounts deemed uncollectible by management are considered in default and may result in full or partial writeoffs, depending on the level and value of security on hand.

In 2011-12, the amount of writeoffs, net of recoveries, increased slightly to $36.8 million. However, writeoffs as a percentage of loans receivable remained low at 0.2%.

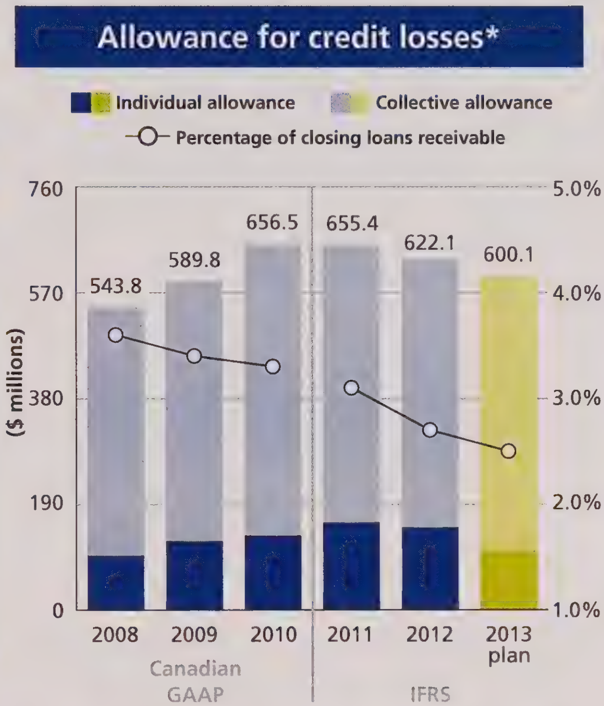
In 2012-13, writeoffs are projected to increase by $28.0 million to $64.8 million due to growth in loans receivable. Writeoffs as a percentage of loans receivable are expected to increase to 0.3%. Additional losses may be realized as a result of ongoing economic conditions.



*Net of recoveries.
*Writeoffs for 2008 through 2010 have been restated as a result of prior period adjustments.

Allowance for credit losses

The allowance for credit losses is an estimate used to adjust loans receivable to reflect the estimated realizable value. In addition to the use of indicators such as loans in arrears and impaired loans, management must rely on estimates and judgment when assessing the appropriate level of realizable value. These factors, coupled with changes in the external operating environment, may cause the realized credit losses to be materially different from current assessments, resulting in the need for an increase or decrease in the provision for credit losses.



*Allowance for credit losses for 2008 through 2010 have been restated as a result of prior period adjustments.

In determining the allowance for credit losses, management segregates credit losses into two allowance components: individual and collective. The individual allowance assesses risk based on an individual review of each loan or lease in the portfolio. The collective allowance assesses risk on an aggregated basis by grouping loans and leases with similar credit risk characteristics. For more details regarding the allowance calculation process and its components, refer to Note 2 and Note 8 of the Notes to the Consolidated Financial Statements.

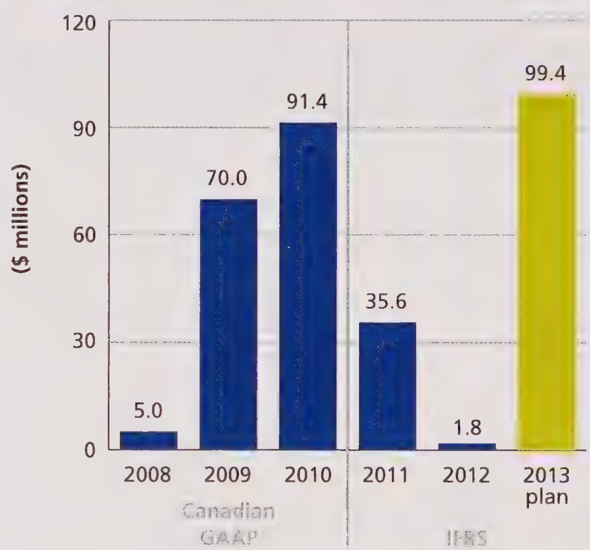
In 2011-12, the allowance for credit losses decreased to $622.1 million, which is $33.3 million lower than the previous fiscal year. The allowance for credit losses as a percentage of closing loans receivable decreased from 3.1% to 2.7%. The reduced level of allowance was the result of a change in estimate due to a refinement in underlying assumptions used to calculate the allowance offset by an increase in the allowance required to support growth in loans receivable. The allowance is expected to decrease by 3.5% to $600.1 million in 2012-13.

Provision for credit losses

Once the allowance for credit losses and writeoffs is determined by management, the provision for credit losses is charged against net income by an amount necessary to bring the allowance for credit losses to the appropriate level.

To bring the allowance to the appropriate level of $622.1 million, the provision for credit losses decreased to $1.8 million in 2011-12. In 2012-13, the provision as a percentage of ending loans receivable is expected to increase to 0.4%.

Provision for credit losses



Efficiency

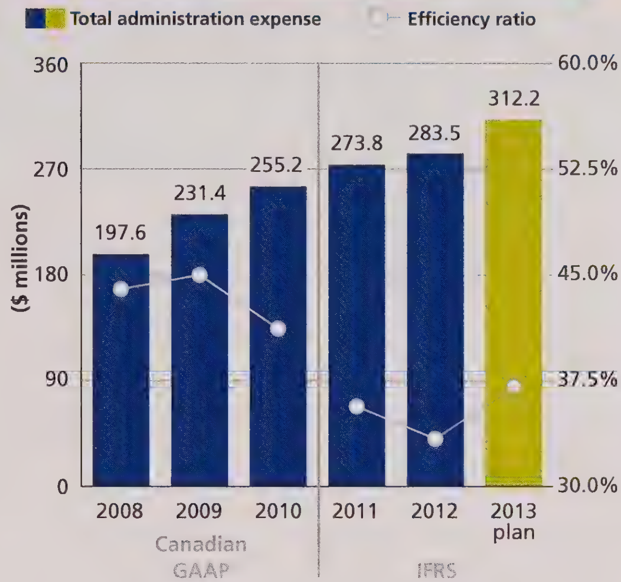
The efficiency ratio measures the percentage of income earned that is spent on the operation of the business. A low efficiency ratio indicates the efficient use of corporate resources.

FCC administration expenses represent costs associated with its day-to-day operation and costs related to specific projects undertaken by FCC to support operations and the achievement of strategic objectives. Although total administration expenses increased in 2011-12, the efficiency ratio improved from 35.7% to 33.4% due to higher net interest income and non-interest income.

Total administration expenses are projected to increase to $312.2 million in 2012-13 and the efficiency ratio is expected to increase to 37.1%. The 3.7% increase in the efficiency ratio is primarily due to lower net interest margin and non-interest income projected for 2012-13. Excluding the one-time gain on sale of the venture capital investments, the year-over-year increase to the efficiency ratio would be 2.3%.

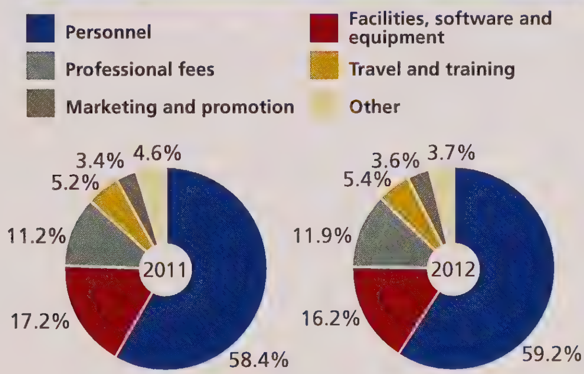
The increase in administration expenses for 2012-13 will be necessary for additional capacity to support growth in the business, normal inflationary pressures and additional depreciation on current capital projects. Some project expenses were also deferred from 2011-12 to 2012-13, contributing to the year-over-year increase. FCC will continue to conduct itself in a manner that is mindful of the current climate of fiscal restraint.

Efficiency ratio



In 2011-12, the largest increase in total administration expenses was due to an increase in personnel expenses. The increases were primarily due to increased resource requirements to support the growth of the business and strategic initiatives. Personnel expenses continue to represent the largest proportion of total administration expenses in 2011-12 at 59.2%.

Administration expenses by category



Funding and liquidity

Funding activity

On April 21, 2008, FCC began borrowing directly from the federal government under the Crown Borrowing Program. FCC continues to carry capital market debt raised before this date.

During 2011-12, FCC raised short- and long-term funds through the following programs:

- Domestic Commercial Paper Program (for U.S. dollars only)
- Crown Borrowing Program

Short-term funding

Short-term funding consists of borrowings with a term to maturity of one year or less. Funding is raised through the Domestic Commercial Paper Program and the Crown Borrowing Program. The outstanding short-term borrowings at March 31, 2012, were $9.6 billion, compared to $8.0 billion at March 31, 2011. Of the total short-term borrowings outstanding, $9.2 billion were funds from the Crown Borrowing Program.

Long-term funding

Long-term funding consists of borrowings with a term to maturity of more than one year, which includes fixed-rate borrowings and floating rate notes. Floating rate notes are borrowings with a term to maturity of more than one year that have a floating interest rate that resets based on one-month or three-month T-bill rates. In 2011-12, FCC borrowed a total of $3.6 billion in long-term funds, down from $5.8 billion the previous fiscal year. In 2011-12, all long-term borrowing was through the Crown Borrowing Program.

Overall, the total growth in long-term funding during 2011-12 was an increase of $0.2 billion or 1.5%. This is consistent with the overall growth of the loan portfolio of $1.8 billion or 8.4% during the same period.

Credit ratings

New and outstanding capital market debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. During 2011-12, the corporation's debt ratings were unchanged by Moody's Investors Service and Standard & Poor's. FCC's debt ratings as of March 31, 2012, are detailed below.

	Long-term	Short-term
Moody's Investors Service	Aaa	P-1
Standard & Poor's	AAA	A-1+

Financial instruments

Most of FCC's balance sheet is comprised of financial instruments, including cash, loans receivable and investments. The use of financial instruments exposes FCC to interest rate and, to a lesser extent, foreign exchange rate fluctuations. As part of its overall liability management, FCC uses derivatives to hedge risks and reduce income volatility to help ensure long-term profitability. Derivative risk management is discussed further in Note 24 of the Notes to the Consolidated Financial Statements. Fair value measurement of FCC's financial instruments is described in Note 19 of the Notes to the Consolidated Financial Statements.

Cash flow

Cash and cash equivalents increased $302.4 million from $601.8 million at March 31, 2011, to $904.2 million at March 31, 2012. In 2011-12, cash of $212.0 million and $1.4 billion was provided by investing and financing activities respectively and $1.3 billion was used in operating activities.

Capital Management

Capitalization

FCC's gross assets are $24,451.1 million, of which $3,730.3 million are supported by equity and allowance for credit losses. At this level of capitalization, 15.3% of assets do not require external debt financing. Capitalization is expected to increase to 16.5% in 2012-13 due to lower portfolio growth relative to growth in retained earnings.

	IFRS			Canadian GAAP		
($ millions)	**2013 Plan**	**2012**	2011	2010	2009	2008
Allowance for credit losses	**600.1**	**622.1**	655.4	656.5	589.8	543.8
Contributed surplus	**547.7**	**547.7**	547.7	547.7	547.7	547.7
Retained earnings	**2,836.6**	**2,340.8**	1,938.5	1,584.3	1,321.0	1,132.0
Accumulated other comprehensive income	**174.2**	**203.5**	181.8	203.6	407.2	97.1
Non-controlling interest in special purpose entity	**14.4**	**16.2**	13.4	9.5	7.6	0.2
Total capitalization	**4,173.0**	**3,730.3**	3,336.8	3,001.6	2,873.3	2,320.8
Gross assets	**25,275.4**	**24,451.1**	22,526.2	20,942.8	18,392.5	16,013.9
Capitalization as a percentage of gross assets (%)	**16.5**	**15.3**	14.8	14.3	15.6	14.5

Debt to equity

FCC uses debt to equity as a key measure to assess capital adequacy. It is also used in financial management as a measure of the corporation's ability to fund future growth and meet long-term obligations. Monitoring debt to equity helps to ensure continued self-sustainability and financial viability.

FCC continues to be below its legislated limit of debt to equity, which is 12:1.

From 2010-11 to 2011-12, FCC's debt-to-equity ratio improved from 7.7:1 to 7.1:1. However, FCC did not achieve its stated objective for 2011-12 of 6.9:1. Increased borrowing required to support higher disbursements and an unanticipated loss on pension liability that flowed through equity increased the debt-to-equity ratio. In 2012-13, this ratio is projected to improve further to 6.2:1. A contributing factor to this improvement is the relationship between portfolio and equity growth. When growth in equity exceeds portfolio growth, the debt-to-equity ratio decreases due to a reduced requirement for borrowed funds. In 2011-12, growth in equity was 16.0%, which exceeded the portfolio growth of 8.4%.

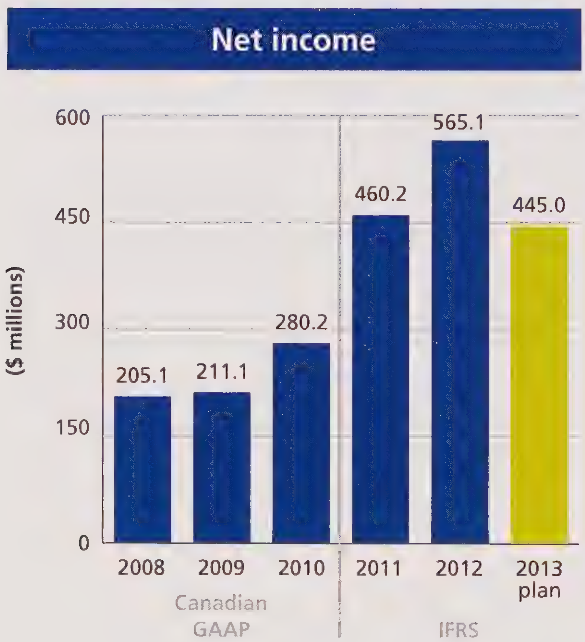
Shareholder return

FCC uses three key financial measures to determine its overall success toward financial strength: net income, return on equity and debt to equity. As discussed in the prior section, debt to equity improved from 7.7:1 in 2010-11 to 7.1:1 in 2011-12 due to the growth in equity exceeding portfolio growth.

Net income

As part of its commitment to agriculture, FCC reinvests its earnings by financing portfolio growth and developing new products and business services that support the industry.

In 2011-12, net income increased by $104.9 million from the previous fiscal year primarily due to the increased level of net interest income and non-interest income compounded by a decrease in the provision for credit losses. These increases were partially offset by increases in administration expenses. Net income is projected to decrease by 21.3% in 2012-13 mainly due to a higher provision for credit losses, lower non-interest income and increased administration expenses.



Return on equity

This ratio measures FCC's efficiency at using its existing equity base to generate income. It is used to evaluate financial performance, viability and the corporation's ability to fund future growth and strategic initiatives.

Return on equity increased to 20.9% in 2011-12 from 20.4% in 2010-11. Return on equity is projected to decrease to 13.9% in 2012-13. The decrease is mainly due to an increase in the provision for credit losses, lower non-interest income and higher administration expenses.

Enterprise risk management

Managing risk to protect FCC and create value

As a financial institution, FCC understands that risk is inherent in virtually every decision. Whether lending to customers, defining business priorities or deciding where to invest, potential risks are taken into account.

FCC is diligent about enterprise risk management (ERM), which is integrated with strategic planning across business lines and corporate initiatives. The corporation is focused on continually improving its approach to ERM, including the continued implementation of an ERM framework and the selection of an ERM maturity measure.

Risk governance

The FCC Board of Directors oversees the corporation's risk governance framework, which is supported by policies and committees that guide corporate decision-making.

Potential risks are identified and analyzed through external scanning, consultation with internal subject matter experts and by other means. The top enterprise risks are discussed by the Board through its involvement in the strategic planning cycle. Members of the Executive Management Team (EMT) are accountable for risk mitigation plans, monitor progress and report to the Board on a quarterly basis through the corporate scorecard.

A number of internal committees develop and monitor aspects of FCC's overall risk management policies, processes and practices. These committees report regularly to the President and CEO and EMT, as required, or directly to the Board.

FCC Board of Directors and risk-related committees

The FCC Board of Directors oversees risk management and ensures that policies, control systems and practices are established to manage key business and financial risks. Three committees assist the Board in fulfilling its risk governance responsibilities.

The **Corporate Governance Committee** provides recommendations to the Board regarding all FCC corporate governance matters, including strategic planning and ERM programs and processes, the code of conduct and ethics, corporate social responsibility and the reputation policy.

The **Audit Committee** oversees the integrity of financial reporting, the effectiveness of internal controls, regulatory compliance, ethical conduct and the performance of FCC's internal and external audit functions.

The **Human Resources Committee** is responsible for advising the Board about all matters relative to the President and CEO, including required skills, goal setting, and performance reviews. The committee is also responsible for reviewing the corporation's compensation structure and succession plans for key employees and senior management.

FCC risk committees

The **President and CEO** and **EMT** are responsible for corporate decision-making, including managing the corporation's principal risks. They are also responsible for making decisions concerning risk-related strategies that have been escalated by the following committees.

The **Asset Liability Committee** (ALCO) directs FCC's asset and liability management function, including:

- establishing and maintaining portfolio risk management policies and processes
- balance sheet interest rate policies
- loan pricing
- integration with corporate strategies
- achievement of portfolio return targets

The **Credit Committee** approves large loan transactions and requests for pre-authorized credit in accordance with FCC credit policies. The committee ensures that approved lending transactions fall within an appropriate risk tolerance.

The **Credit Policy Committee** ensures that both industry best practices and federal, provincial and regional laws and regulations are adhered to in the establishment of FCC credit policy and credit risk tolerance.

The **ERM Steering Committee** reviews and recommends FCC's ERM framework, policies, strategies and subsequent enhancements to EMT. The committee also approves annual corporate action plans to mitigate significant risks.

The **Reputation Steering Committee** acts as a focal point for the co-ordination of reputation issues. The committee:

- provides a corporate approach and enterprise-wide perspective on FCC's reputation
- offers counsel and advice on reputation risks
- monitors issues and provides reports to the President and CEO, EMT and the Board

FCC's principal risks

Risk is the potential for an event, action or inaction that may threaten FCC's ability to achieve its business mandate and objectives. FCC has identified five principal risk areas: credit, market, operational, strategic and reputation.

Credit risk

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet financial obligations to FCC. This is the most significant risk that the corporation faces.

The Board is responsible for approving the corporation's credit risk tolerance and relies on a number of committees, divisions and business units to effectively manage credit risks.

On an annual basis, the Board and EMT approve a portfolio diversification plan and key risk measures. Leveraging financial industry best practices, FCC has developed a credit capital model and is in the process of implementing an overarching capital management framework.

The assessment of credit risk starts with individual transactions. FCC lending and credit risk employees assess and manage credit risk by ensuring that individual loans are consistent with defined policies and guidelines. The Valuation business unit has certified appraisers who contribute to assuring the accuracy of loan security value estimates and that FCC is meeting its requirements under the Canadian Environmental Assessment Act.

In addition to managing credit risk at the transactional level, the Portfolio and Credit Risk division assesses credit risk at the aggregate level by providing assessment tools and models that quantify risks, establish the required allowance for loan and lease losses and monitor capital adequacy. Policies, processes, systems, internal controls and strategies are used to manage the credit risk of the portfolio. FCC also closely monitors the agriculture and agribusiness operating environments to ensure that the corporation's lending policies, activities and practices are appropriate and relevant.

The Treasury division assesses credit risk due to counterparty exposure on derivative and investment activity. Policies, processes, systems and strategies are used to manage the credit risk of Treasury activities.

Further details on how FCC manages credit risk are described in Note 24 of the Notes to the Consolidated Financial Statements.

Market risk

Market risk is the potential for loss due to adverse changes in underlying market factors such as interest rates and foreign exchange rates.

Market risk policies are regularly reviewed by the ALCO and approved by the Board. The Treasury division implements market risk management directives and reports regularly to the ALCO and the Board on its activities and asset and liability positions.

FCC has market risk policies and limits in place to ensure that exposure to interest rate and foreign exchange risks are identified, measured, managed and reported on a timely basis. Market risk management at FCC also encompasses derivative fair value risk and liquidity risk. Policies include limits around the variability of net interest income and the market value of portfolio equity relative to interest rate changes.

Liquidity risk is minimized through the use of a liquid investment portfolio, funding through the Crown Borrowing Program and access to an operating line of credit.

Further details on how FCC manages market risk are described in Note 24 of the Notes to the Consolidated Financial Statements.

Operational risk

Operational risk relates to the potential of direct or indirect loss due to inadequate or failed internal processes, resources, systems or external events, and the failure to comply with, or adapt, to legislative or regulatory requirements or litigation.

FCC has a team approach to proactively manage operational risk. All managers are responsible to ensure that appropriate policies and processes are in place within their business units and that internal controls are operating effectively.

FCC is formalizing its internal control framework to advance the risk-based culture at FCC. The internal control framework will formalize the requirements for the design, implementation, operation and monitoring of internal controls within the corporation.

FCC's operations audit program examines lending activities and provides learning opportunities for continuous improvement in the areas of risk assessment and mitigation, compliance to credit policies and data integrity.

Incidents of fraud may negatively affect customer and public perceptions of FCC, making current and potential customers less willing to do business with the corporation. FCC reduces exposure to fraud risk through a Board-approved fraud risk management policy and by delivering fraud awareness training to employees.

To ensure that the corporation can sustain operations in the event of a business disruption, FCC actively updates and tests its business continuity plan.

Enterprise security is addressed by a highly skilled and dedicated team of professionals across Information Technology, Facilities and Administration, and Human Resources who provide security controls that protect the availability, confidentiality and integrity of FCC assets. Overall, enterprise security governance is provided by a cross-divisional security co-ordination team.

FCC is entering the final stages of implementing a major information technology systems renewal that will streamline and automate many business processes, ensuring that FCC's information technology infrastructure can support business in the future. Risks related to the program are mitigated by extensive risk governance and reporting, ongoing reviews by Internal Audit and an external consultant, change management and training activities.

Strategic risk

Strategic risk refers to the external environment and includes competitors' and FCC's ability to develop and implement effective business strategies.

The EMT develops the corporate strategy annually and documents FCC's key strategic priorities in the five-year corporate plan. Oversight is provided by the Board. Progress on the plan is monitored through quarterly reporting to senior management and the Board. The external environment is monitored, including the Canadian financial marketplace and the agriculture industry, to discern if strategic changes are required to address emerging risks. FCC regularly communicates with its shareholder, the Government of Canada, to ensure the alignment of the corporation's activities with government priorities.

Reputation risk

Reputation risk is the risk that key stakeholders and others may develop negative perceptions about FCC that could adversely affect the corporation's reputation and ability to attract and retain customers, business partners and employees.

As a federal Crown corporation, FCC is accountable to all Canadians. To avoid real or perceived reputation damage, FCC has a robust governance structure in place, including policies and processes, to guide employee conduct in interactions with co-workers, customers, industry partners, suppliers, media and the general public.

Customer integrity and the potential impact on FCC's reputation from conducting business with any particular individual is part of the lending process. The loan application process requires customers to sign a declaration stating that they know of no reason why FCC may have any concern with their business.

Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of Farm Credit Canada and all information in this annual report are the responsibility of the corporation's management and have been reviewed and approved by the FCC Board of Directors. The consolidated financial statements include some amounts that are necessarily based on management's best estimates and judgments such as the allowance for credit losses, the retirement benefit liability, the reserve for insurance claims and the fair value of financial instruments.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. Financial information presented elsewhere in the annual report is consistent with that contained in the consolidated financial statements.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are properly authorized and recorded, assets are safeguarded, liabilities are recognized, proper records are maintained and the corporation complies with applicable laws and conflict of interest rules. The system of internal control is augmented by internal audit, which conducts periodic reviews of different aspects of the corporation's operations.

The FCC Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The FCC Board of Directors exercises this responsibility through the Audit Committee, which is composed of Directors who are not employees of the corporation. The Audit Committee meets with management, the internal auditors and the external auditors on a regular basis. Internal and external auditors have full and free access to the Audit Committee.

The corporation's independent external auditor, the Auditor General of Canada, is responsible for auditing the transactions and consolidated financial statements of the corporation and for issuing his report thereon.

Greg Stewart, P.Ag., C.Dir
President and Chief Executive Officer

Rick Hoffman, CMA, MBA
Executive Vice-President and
Chief Financial Officer

Regina, Canada
May 30, 2012

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Agriculture and Agri-Food

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of Farm Credit Canada, which comprise the consolidated balance sheets as at 31 March 2012, 31 March 2011 and 1 April 2010, and the consolidated statements of operations, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended 31 March 2012 and 31 March 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Farm Credit Canada as at 31 March 2012, 31 March 2011 and 1 April 2010, and its financial performance and its cash flows for the years ended 31 March 2012 and 31 March 2011 in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied, after giving retrospective effect to the adoption of the new standards as explained in Note 3 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of Farm Credit Canada that have come to my notice during my audits of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Canada Act*, the by-laws of Farm Credit Canada and the directive issued pursuant to Section 89 of the *Financial Administration Act*.

Michael Ferguson, FCA
Auditor General of Canada

30 May 2012
Ottawa, Canada

Consolidated Balance Sheet

As at March 31 (Thousands of Canadian dollars)	2012	2011	2010
Assets			
Cash and cash equivalents	$ 904,217	$ 601,840	$ 628,023
Temporary investments (Note 4)	83,813	284,162	199,818
Accounts receivable	16,356	12,676	32,818
Derivative financial assets (Note 5)	67,898	47,407	66,945
	1,072,284	946,085	927,604
Loans receivable – net (Notes 6 and 8)	22,580,309	20,745,891	19,157,211
Finance leases receivable – net (Notes 7 and 8)	9,541	4,912	2,827
Venture capital investments (Note 9)	53,527	58,024	59,987
	22,643,377	20,808,827	19,220,025
Equipment and leasehold improvements (Note 10)	26,655	29,314	31,513
Computer software (Note 11)	40,091	42,124	42,814
Equipment under operating leases (Note 12)	28,331	19,077	14,867
Other assets (Note 13)	18,307	25,284	14,459
	113,384	115,799	103,653
Total assets	$ 23,829,045	$ 21,870,711	$ 20,251,282
Liabilities			
Accounts payable and accrued liabilities	$ 59,675	$ 52,153	$ 49,864
Derivative financial liabilities (Note 5)	84	4,724	6,843
	59,759	56,877	56,707
Borrowings (Note 14)			
Short-term debt	9,568,666	8,029,920	8,810,407
Long-term debt	10,772,729	10,921,999	8,948,764
	20,341,395	18,951,919	17,759,171
Transition Loan liability	84,108	84,245	83,182
Retirement benefit liabilities (Note 15)	224,060	86,275	130,772
Other liabilities (Note 16)	11,550	10,024	8,333
	319,718	180,544	222,287
Equity			
Contributed surplus	547,725	547,725	547,725
Retained earnings	2,340,813	1,938,466	1,452,328
Accumulated other comprehensive income	203,477	181,804	203,603
Equity attributable to shareholder of parent entity	3,092,015	2,667,995	2,203,656
Non-controlling interest in special purpose entity	16,158	13,376	9,461
	3,108,173	2,681,371	2,213,117
Total liabilities and equity	$ 23,829,045	$ 21,870,711	$ 20,251,282

Commitments, guarantees and contingent liabilities (Note 21).

The accompanying notes are an integral part of the consolidated financial statements.

The consolidated financial statements were approved by the FCC Board of Directors on May 30, 2012, and were signed on its behalf by:

Greg Stewart, P.Ag., C. Dir
President and Chief Executive Officer

John Klippenstein, FCMA
Chair, Audit Committee

Consolidated Statement of Operations

For the year ended March 31 (Thousands of Canadian dollars)	2012	2011
Interest income	$ 1,060,359	$ 988,482
Interest expense	263,098	238,382
Net interest income (Note 17)	797,261	750,100
Provision for credit losses (Note 8)	1,781	35,600
Net interest income after provision for credit losses	795,480	714,500
Net insurance income	11,907	11,130
Other income (Note 9)	39,168	4,857
Net interest income and non-interest income	846,555	730,487
Administration expenses		
Salary expense	127,649	122,640
Benefits expense	40,045	37,135
Professional fees expense	33,822	30,541
Facilities, software and equipment expense	23,656	20,952
Amortization and depreciation expense	22,391	26,101
Travel and training expense	15,292	14,306
Marketing and promotion expense	10,093	9,461
Other expenses	10,530	12,617
Total administration expenses	283,478	273,753
Net income before fair value adjustment	563,077	456,734
Fair value adjustment (Note 18)	1,997	3,446
Net income	$ 565,074	$ 460,180
Net income (loss) attributable to:		
Shareholder of parent entity	$ 564,341	$ 460,944
Non-controlling interest in special purpose entity	733	(764)

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended March 31 (Thousands of Canadian dollars)		2012		2011
Net income	$	**565,074**	$	460,180
Other comprehensive income				
Net gains on derivatives designated as cash flow hedges		**39,178**		498
Transfer of net realized gains on derivatives designated as cash flow hedges to net income		**(18,430)**		(21,060)
Change in net gains (losses) on derivatives designated as cash flow hedges		**20,748**		(20,562)
Net actuarial (losses) gains on defined benefit pension plans		**(144,494)**		1,939
Change in liability arising from the impact of the minimum funding requirement on the asset ceiling		**–**		41,755
Net unrealized gains (losses) on available-for-sale financial assets		**925**		(1,237)
Total other comprehensive income	$	**(122,821)**	$	21,895
Total comprehensive income	$	**442,253**	$	482,075
Total comprehensive income (loss) attributable to:				
Shareholder of parent entity	$	**441,520**	$	482,839
Non-controlling interest in special purpose entity		**733**		(764)

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

(Thousands of Canadian dollars)	Balance April 1, 2011	Net income	Other comprehensive income	Dividend paid	Distributions to non-controlling interest	Balance, March 31, 2012
Contributed surplus	$ 547,725	$ –	$ –	$ –	$ –	$ 547,725
Retained earnings	1,938,466	564,341	(144,494)	(17,500)	–	2,340,813
Net gains on derivatives designated as cash flow hedges	183,297	–	20,748	–	–	204,045
Net unrealized (losses) gains on available-for-sale financial assets	(1,493)	–	925	–	–	(568)
Total accumulated other comprehensive income	181,804	–	21,673	–	–	203,477
Total equity attributable to parent	2,667,995	564,341	(122,821)	(17,500)	–	3,092,015
Non-controlling interest in special purpose entity	13,376	733	–	–	2,049	16,158
Total	$ 2,681,371	$ 565,074	$ (122,821)	$ (17,500)	$ 2,049	$ 3,108,173

(Thousands of Canadian dollars)	Balance April 1, 2010	Net income	Other comprehensive income	Dividend paid	Distributions to non-controlling interest	Balance, March 31, 2011
Contributed surplus	$ 547,725	$ –	$ –	$ –	$ –	$ 547,725
Retained earnings	1,452,328	460,944	43,694	(18,500)	–	1,938,466
Net gains (losses) on derivatives designated as cash flow hedges	203,859	–	(20,562)	–	–	183,297
Net unrealized losses on available-for-sale financial assets	(256)	–	(1,237)	–	–	(1,493)
Total accumulated other comprehensive income (loss)	203,603	–	(21,799)	–	–	181,804
Total equity attributable to parent	2,203,656	460,944	21,895	(18,500)	–	2,667,995
Non-controlling interest in special purpose entity	9,461	(764)	–	–	4,679	13,376
Total	$ 2,213,117	$ 460,180	$ 21,895	$ (18,500)	$ 4,679	$ 2,681,371

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended March 31 (Thousands of Canadian dollars)	2012	2011
Operating activities		
Net income	$ 564,341	$ 460,944
Adjustments to determine net cash (used in) provided by operating activities:		
Net interest income	(797,261)	(750,100)
Unwind adjustment	535	(1,197)
Provision for credit losses	1,781	35,600
Fair value adjustment	(1,997)	(3,446)
Gain on sale of venture capital investment in associate	(34,048)	–
Depreciation and amortization (1)	(4,160)	(9,040)
Other	(864)	(2,547)
Net cash outflow from loans receivable	(1,836,732)	(1,588,701)
Net cash outflow from finance leases receivable	(4,258)	(2,020)
Net change in other operating assets and liabilities	20,462	1,375
Interest received	1,059,128	929,673
Interest paid	(250,846)	(186,631)
Cash used in operating activities	$ (1,283,919)	$ (1,116,090)
Investing activities		
Net cash inflow (outflow) from temporary investments	$ 200,442	$ (84,314)
Acquisition of venture capital investments	(9,511)	(12,000)
Proceeds on disposal and repayment of venture capital investments	50,452	15,582
Purchase of equipment and leasehold improvements	(8,142)	(8,649)
Purchase of computer software	(9,588)	(14,563)
Purchase of equipment under operating leases	(13,983)	(7,862)
Disposal of real estate property held for sale	2,292	2,068
Cash provided by (used in) investing activities	$ 211,962	$ (109,738)
Financing activities		
Long-term debt issued	$ 3,575,666	$ 5,775,881
Long-term debt repaid	(3,481,967)	(3,486,289)
Short-term debt issued	32,373,724	42,093,003
Short-term debt repaid	(31,074,904)	(43,164,403)
Dividend paid	(17,500)	(18,500)
Cash provided by financing activities	$ 1,375,019	$ 1,199,692
Change in cash and cash equivalents	$ 303,062	$ (26,136)
Cash and cash equivalents, beginning of year	601,840	628,023
Effects of exchange rate changes on the balances of cash held and due in foreign currencies	(685)	(47)
Cash and cash equivalents, end of year	$ 904,217	$ 601,840
Cash and cash equivalents are comprised of:		
Cash	$ 107,576	$ 18,106
Short-term investments	796,641	583,734

(1) Includes the depreciation of equipment and leasehold improvements and equipment under operating leases and the amortization of computer software. Also includes amortization of accumulated other comprehensive income, bond premium or discount, deferred revenue fees and deferred initial direct leasing costs.

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. The corporation

Authority and objectives

Farm Credit Canada (the corporation) was established in 1959 by the Farm Credit Act as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the Financial Administration Act. The corporation is domiciled in Canada and its registered office is at 1800 Hamilton Street, Regina, Saskatchewan, Canada. The corporation is wholly owned by the Government of Canada and is not subject to the requirements of the Income Tax Act.

On April 2, 1993, the Farm Credit Corporation Act was proclaimed into law and replaced the Farm Credit Act and the Farm Syndicates Credit Act, both of which were repealed. The revised Act allows the corporation to operate under an expanded mandate that includes broader lending and administrative powers.

On June 14, 2001, the Farm Credit Canada Act received royal assent, which updated the Farm Credit Corporation Act. This Act allows the corporation to offer producers and agribusiness operators a broader range of services.

In September 2008, the corporation, together with a number of other Crown corporations, was issued a directive (P.C. 2008-1598) pursuant to Section 89 of the Financial Administration Act, requiring due consideration by the corporation to the personal integrity of those it lends to or provides benefits to. During fiscal 2012, the corporation continued to ensure that the requirements of Section 89(6) of the Financial Administration Act were being implemented.

The purpose of the corporation is to enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small and medium-sized businesses, that are businesses related to farming. The primary focus of the activities of the corporation shall be on farming operations, including family farms.

2. Significant accounting policies

Basis of presentation

Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These are the corporation's first annual financial statements prepared in accordance with IFRS. The impact to the corporation of the transition to IFRS is outlined in Note 3.

The significant accounting policies used in the preparation of the consolidated financial statements are summarized below and in the following pages. The significant accounting policies have been applied consistently to all periods presented in the consolidated financial statements and in preparing the opening IFRS consolidated balance sheet as at April 1, 2010, for the purposes of the transition to IFRS.

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the corporation. Unless otherwise stated, all dollar amounts presented within the Notes to the Consolidated Financial Statements are in thousands of Canadian dollars.

2. Significant accounting policies (continued)

Basis of consolidation

The consolidated financial statements include the accounts of the corporation, Avrio Ventures Limited Partnership (Avrio Fund I) and Avrio Ventures Limited Partnership II (Avrio Fund II). Avrio Fund I and Avrio Fund II are venture capital limited partnerships for which the corporation is a limited partner holding majority partnership interests. The corporation consolidates Avrio Fund I and Avrio Fund II because they are special purpose entities in which the corporation is entitled and exposed to a majority of the benefits and risks. An adjustment has been made for significant intervening transactions occurring between Avrio Fund I's and Avrio Fund II's year-end of December 31 and the year-end of the corporation. All significant intercompany balances and transactions have been eliminated. The non-controlling interest, which represents the equity in Avrio Fund I and Avrio Fund II not attributable to the corporation, has been presented in the Consolidated Balance Sheet, the Consolidated Statement of Operations, the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity.

Classification and designation of financial instruments

Financial assets are classified or designated as loans and receivables, financial assets at fair value through profit or loss or available-for-sale (AFS) financial assets. Financial liabilities are classified or designated as financial liabilities at fair value through profit or loss or other financial liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial instruments at fair value through profit or loss are derivative financial assets and liabilities that are classified as held for trading (HFT) and non-derivative financial assets and liabilities that meet certain conditions to be designated at fair value through profit or loss at initial recognition. AFS financial assets are non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets.

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification.

Cash and cash equivalents

Cash and cash equivalents are composed of bank account balances and short-term highly liquid investments that are readily convertible to cash with a maturity date of 90 days or less from the date of acquisition. Interest earned on cash and cash equivalents is included in interest income.

Temporary investments

Temporary investments have maturity dates between 91 and 365 days from the date of acquisition, are acquired primarily for liquidity purposes and are designated as AFS financial assets. Temporary investments are accounted for at fair value using trade date accounting and a valuation technique as described under the Estimation Uncertainty heading. Unrealized fair value gains and losses are included in other comprehensive income (OCI). Interest earned on temporary investments is included in interest income.

2. Significant accounting policies (continued)

Derivatives

Derivative financial instruments create rights and obligations that are intended to mitigate one or more of the financial risks inherent in an underlying primary financial instrument. The corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations, within limits approved by the FCC Board of Directors (Board). These limits are based on guidelines established by the Department of Finance. The corporation does not use derivative financial instruments for speculative purposes.

Derivatives not designated as hedging instruments in effective hedging relationships are classified as HFT. HFT derivatives are recorded at fair value using a valuation technique as described under the Estimation Uncertainty heading, with gains and losses reported in the fair value adjustment. HFT derivatives are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. Interest earned and incurred on HFT derivatives is included in interest expense.

Cash flow hedges

Derivatives that are designated as hedging items in cash flow hedges are accounted for at fair value. The effective portion of a change in a derivative's fair value is recognized in OCI while the ineffective portion of a change in a derivative's fair value is reported in the fair value adjustment. Derivatives designated as hedging items are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. Interest income or expense related to derivatives designated as hedging items in cash flow hedges is recognized on the same basis as the hedged item, as an adjustment to interest income or expense, respectively.

Cash flow hedge accounting is discontinued prospectively when the derivative contract is terminated, matures or no longer qualifies as an effective cash flow hedge. When a cash flow hedge is discontinued, any cumulative gains or losses previously recognized in OCI are transferred to net interest income over the remaining term of the original hedge and in the same manner that net interest income is affected by the variability in the cash flows as the hedged item. For derivatives still outstanding following the date of the discontinued hedging relationship, all subsequent fair value gains and losses are recognized immediately in the fair value adjustment.

Loans receivable

Loans are classified as loans and receivables. Loans receivable are stated net of an allowance for credit losses and deferred loan fees and are measured at amortized cost using the effective interest rate method.

Loan interest income is recorded on an accrual basis and is recognized in net income using the effective interest rate method until such time as the loan is classified as impaired. Once a loan is impaired, the unwinding of the discount on the security value is recognized as interest income based on the original effective interest rate of the loan.

Loan origination fees, including commitment fees and renegotiation fees, are considered an integral part of the return earned on a loan and are recognized in interest income over the expected term of the loan using the effective interest rate method. In addition, certain incremental direct costs for originating the loans are deferred and netted against the related fees.

An impaired loan is any loan where, in management's opinion, there has been a deterioration of credit quality to the extent that the corporation no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, any loan that is $500 or more in arrears for 90 days is classified as impaired unless the loan is sufficiently secured. When a loan is classified as impaired, the carrying value is reduced to its estimated realizable value through an adjustment to the individual allowance for credit losses. Changes in the estimated realizable amount arising subsequent to initial impairment are also adjusted through the allowance for credit losses.

2. Significant accounting policies (continued)

Loan interest income is not accrued when a loan is classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to performing status when, in management's opinion, the ultimate collection of principal and interest is reasonably assured. When the impaired loan is restored to performing status, the allowance for credit losses is reduced through the unwind adjustment for the amount of loan interest income now recognized.

Loans and their related allowance for credit losses are written off when all collection efforts have been exhausted and there is no realistic prospect of future recovery.

Finance leases receivable

Finance leases receivable are classified as loans and receivables. Finance leases receivable are stated net of an allowance for credit losses and are recorded at the aggregate future minimum lease payments plus estimated residual values less unearned finance income. Finance lease income is recognized in a manner that produces a constant rate of return on the lease.

Allowance for credit losses

The corporation recognizes an allowance for credit losses that represents management's best estimate of the incurred losses in the loan and lease portfolio at the balance sheet date. The allowance is increased or decreased by the provision for credit losses, the government subsidy for the Hog Industry Loan Loss Reserve Program (HILLRP), as described under the Government Assistance heading, the unwind adjustment, as described under the Individual Allowance heading, writeoffs and recoveries.

The corporation assesses at each balance sheet date whether there is objective evidence that a loan or lease is impaired. If there is objective evidence that an impairment loss on a loan or lease has been incurred, the carrying value of the loan or lease is reduced through the allowance for credit losses and the amount of the loss is recognized in the provision for credit losses. If, in a subsequent period, the amount of impairment loss increases or decreases and the increase or decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is adjusted through the allowance for credit losses and provision for credit losses. In determining the allowance for credit losses, management segregates credit losses into two components: individual and collective.

Individual allowance – The corporation first assesses whether objective evidence of impairment exists based on an individual review of each loan or lease in the portfolio. The review is undertaken to determine if a loss event indicating impairment exists for an individual loan or lease. The review assesses whether there has been a deterioration of credit quality to the extent that the corporation no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, the corporation has defined arrears of greater than $500 for 90 or more consecutive days as being a loss event. If a loss event has occurred, an impairment loss is recorded as the difference between the loan or lease's carrying value and the present value of estimated future cash flows discounted at either the loan or lease's original effective interest rate for fixed-rate loans or leases or the effective interest rate at the time of the impairment for variable-rate loans or leases. The estimation of future cash flows considers the fair value of any underlying security as well as the estimated time and costs to realize the security. In subsequent periods, any change in present value of estimated future cash flows attributable to the passage of time adjusts the allowance for credit losses through the unwind adjustment. The unwind adjustment is recorded in interest income.

2. Significant accounting policies (continued)

Collective allowance – If the corporation determines that no objective evidence of impairment exists for an individually assessed loan or lease, it is assessed on a collective basis. In making the collective assessment of impairment, management groups the loans and leases into portfolios with similar credit risk characteristics. Future cash flows for these portfolios are estimated on the basis of underlying security values and historical loss experience. The collective assessment of impairment for loans is broken down into three components: triggered loan pool, incurred but not reported (IBNR) and overlay.

- Triggered loan pool – Loans are included in this pool if any one of the following loss events has occurred:
  1. All loans for customers with any one loan that has a minimum of $500 of arrears.
  2. All loans for customers with any one loan that has had an amortization extension to the payment schedule in the last 12 months.
  3. Any individual loan that has had a 15-point risk scoring and pricing system (RSPS) score drop when compared to its RSPS score 12 months ago.
- IBNR – This assessment considers credit losses that have been incurred but have not yet been identified on loans subject to individual assessment. It is based on the historical movement of loans from performing status to either the triggered or individually impaired loan pools.
- Overlay – The corporation uses the overlay to adjust its historical loss experience reflected in the triggered loan pool and IBNR components of the collective assessment for current market conditions.

For select portions of the corporation's portfolio, the above process is tailored to capture the unique characteristics of these loans to identify and measure impairment more accurately. For these loans, the individual loss event is considered to be 165 days past due. For the collective allowance, the corporation considers the historical movement of performing loans to impaired status along with the calculation of expected future cash flows estimated using historical probabilities of default and loss given default.

Venture capital investments

Venture capital investments include investments that are held directly by the corporation and investments held by Avrio Fund I and Avrio Fund II.

The corporation has designated its venture capital investments at fair value through profit or loss, as they are managed and their performance is evaluated on a fair value basis in accordance with a documented investment strategy, with the exception of one associate venture capital investment that was sold during the fiscal year. An associate is an entity over which the corporation is able to exert significant influence.

Venture capital investments designated at fair value through profit or loss are accounted for at fair value, using a valuation technique as described under the Estimation Uncertainty heading, with gains and losses reported in the fair value adjustment. Interest on debt, calculated in accordance with the effective interest rate method, is accrued when receivable and included in interest income. Dividends on preferred and common shares are accrued when receivable and declared, respectively, and included in interest income. Royalty and fee income are also accrued when receivable and included in interest income.

The associate venture capital investment was initially accounted for at cost and subsequently accounted for using the equity method. Under this method, the pro rata share of post-acquisition earnings is included in other income and adjusts the carrying value of the investment. Dividends received or receivable reduce the carrying value of the investment. The gain on sale of the associate venture capital investment is recorded in other income.

2. Significant accounting policies (continued)

Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the equipment or leasehold improvement. Subsequent expenditures, including replaced parts, are included in the equipment or leasehold improvement's carrying value or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the corporation and the cost of the item can be measured reliably. The carrying value of the replaced part is derecognized. All repair and maintenance costs are expensed during the financial period in which they are incurred.

Depreciation begins when the equipment or leasehold improvement is available for use by the corporation. Depreciation is calculated using the straight-line method to allocate the cost less estimated residual value of the asset over the following terms:

	Terms
Office equipment and furniture	5 years
Computer equipment	3 or 5 years
Leasehold improvements	Shorter of lease term or asset's useful economic life

The residual values and useful lives are reviewed annually and adjusted, if appropriate. Equipment and leasehold improvements are reviewed annually for impairment and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss would be recorded to reduce the carrying value to the recoverable amount if the carrying value is greater than the estimated recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with the carrying value and are included in facilities, software and equipment expense.

Computer software

Computer software is recorded at cost less accumulated amortization. Expenditures on internally developed software are recognized as assets when the corporation is able to demonstrate its intention and ability to complete the development, to use the software in a manner that will generate future economic benefits and to reliably measure the costs to complete the development. The capitalized costs of internally developed software include all costs directly attributable to developing the software.

Amortization begins when the software is available for use by the corporation. Amortization is recorded over the estimated useful life of three or five years using the straight-line method.

Software is reviewed annually for indications of impairment or changes in estimated future economic benefits. If such indications exist, the carrying value is analyzed to assess whether it is fully recoverable. An impairment loss would be recorded to reduce the carrying value to the recoverable amount if the carrying value is greater than the estimated recoverable amount.

Equipment under operating leases

Equipment under operating leases is recorded at cost less accumulated depreciation. Equipment is depreciated on a straight-line basis over the term of the lease and is included in interest expense. Lease income from operating leases is recognized on a straight-line basis over the term of the lease and is included in interest income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying value of the leased asset and recognized on a straight-line basis over the lease term.

2. Significant accounting policies (continued)

Post-employment benefits

The corporation has a registered defined benefit pension plan, three supplemental defined benefit pension plans, a registered defined contribution pension plan, a supplemental defined contribution plan and other defined benefit plans that provide retirement and post-employment benefits to most of its employees. The defined benefit pension plan is based on the number of years of service and average salary of the five highest-paid consecutive years of service. It is inflation-protected. The supplemental defined benefit and supplemental defined contribution pension plans are available for employees with employment income greater than pensionable earnings.

Retirement benefit plans are contributory health-care plans with employee contributions adjusted annually and a non-contributory life insurance plan. Post-employment plans provide short-term disability income benefits, severance entitlements after employment and health-care benefits to employees on long-term disability.

The accrued benefit obligations for pension and other defined benefit plans are actuarially determined using the projected unit credit actuarial valuation method that incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors.

For the purpose of calculating the expected return on plan assets, these assets are valued at fair value.

Actuarial gains or losses arise from the difference between the actual long-term rate of return on plan assets for the period and the expected long-term rate of return on plan assets for the period or from changes in actuarial assumptions used to determine the accrued benefit obligations. Actuarial gains and losses are recognized in OCI as incurred and flow into retained earnings in the Consolidated Balance Sheet.

Past service costs arising from plan amendments are recognized immediately in benefits expense to the extent that the benefits are already vested and otherwise are recognized on a straight-line basis over the average period until the benefits become vested.

The defined benefit asset or liability represents the present value of the defined benefit obligation adjusted for unrecognized past service costs and is reduced by the fair value of plan assets. The defined benefit asset is limited to the value determined by the asset ceiling. The value of the asset is restricted to the sum of any unrecognized actuarial losses and past service costs, plus the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plan.

Contributions to the defined contribution plan are recognized as an expense when employees have rendered service entitling them to the contributions. Unpaid contributions are recognized as a liability.

Insurance

The corporation sells group creditor life and accident insurance to its customers through a program administered by a major insurance provider. The insurance premiums are actuarially determined and are accrued when receivable and recorded in net insurance income.

Insurance claims expense, included in net insurance income, consists of paid claims that are recorded as incurred throughout the year, an accrual for insurance claims payable at year-end for claims that have been incurred as at the balance sheet date and adjustments to the reserve for insurance claims. The reserve for insurance claims represents the liability that, together with estimated future premiums and net investment income on insurance reserve assets, will provide for outstanding claims, estimated future benefits, taxes (other than income taxes) and expenses. The reserve for insurance claims is recorded at fair value and included in other liabilities. The reserve is actuarially determined using the Canadian Asset Liability Method and prepared on a going concern basis, taking into account the appropriate degree of risk inherent in the obligation, as described in Note 24. Changes in estimates are recorded when made and are included in net insurance income.

2. Significant accounting policies (continued)

The corporation maintains an insurance reserve asset, which is included in other assets, with the insurance provider to fund future claim payments. Interest is paid on the reserve asset by the insurance provider annually and is recorded in other income.

Expenses related to administering the insurance program are recorded in other expenses. The accrual for insurance claims payable is classified as other financial liabilities, measured at amortized cost and included in accounts payable and accrued liabilities.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are classified as other financial liabilities and measured at amortized cost.

Borrowings

Borrowings are undertaken with the approval of the Minister of Finance. Borrowings are direct obligations of the corporation and therefore constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

Structured notes form part of the corporation's funding program. Structured notes are hybrid securities that combine fixed-income products with derivative financial instruments. The corporation designated its structured notes at fair value through profit or loss to record them on a basis consistent with the fair value changes in their related derivatives. Borrowings designated at fair value through profit or loss are accounted for at fair value, using a valuation technique as described under the Estimation Uncertainty heading, with gains and losses reported in the fair value adjustment.

Other borrowings are classified as other financial liabilities and measured at amortized cost.

Interest incurred on all borrowings is recorded on an accrual basis and is recognized in interest expense using the effective interest rate method.

Transition Loan liabilities

The corporation records a Transition Loan liability that represents amounts owing to third parties upon the signing of a contract that requires the corporation to pay amounts in accordance with a disbursement schedule relating to undisbursed Transition Loans, which are included in loans receivable. As payments are made in accordance with the Transition Loan disbursement schedule, the applicable amount of the Transition Loan liability is reduced accordingly. Transition Loan liabilities are recorded at amortized cost.

2. Significant accounting policies (continued)

Government assistance

The corporation is one of the financial institutions participating in the HILLRP. Under the HILLRP, the Government of Canada has established a loan loss reserve fund to share the net credit losses on eligible loans provided to hog operations with certain financial institutions. The corporation is responsible for all credit losses beyond those covered by the loan loss reserve fund and must meet certain eligibility requirements to access the reserve fund. The amount of funds available from the loan loss reserve fund to the corporation for any non-performing eligible loans are 90%, 80% and 70% of net credit losses in years one to three, four to six and seven to 15, respectively. Amounts held by the corporation to which the corporation is not entitled are paid back to the Government of Canada at the end of the program. The corporation's deadline for disbursing the loans eligible under this program has passed and no further loan loss reserve fund instalments are due from the Government of Canada.

An estimate is made by management for the amount of the loan loss reserve fund to which the corporation is entitled under the HILLRP. This estimate is accounted for as a reduction to the corporation's provision for credit losses. The remaining amount of the loan loss reserve fund, to which the corporation is not entitled, is recorded as long-term debt. Interest on this long-term debt is recorded in interest expense.

Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issuance or disposal of a financial asset or liability. Transaction costs relating to loans and receivables and borrowings classified as other liabilities are deferred and amortized over the expected useful life of the instrument using the effective interest rate method. Transaction costs related to all other financial instruments are expensed as incurred.

Operating lease payments

Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs are expensed as incurred.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date. Income and expenses are translated at the monthly average exchange rates prevailing throughout the year. Exchange gains and losses on loans and receivables are included in interest income, and exchange gains and losses on borrowings are included in interest expense.

Segmented information

The corporation is organized and managed as a single business segment, which is agriculture lending. All of the corporation's revenues are within Canada.

Significant management judgments in applying accounting policies

The following are critical management judgments used in applying the accounting policies of the corporation.

- **Basis of consolidation**
  Management has exercised its judgment to determine that Avrio Fund I and Avrio Fund II meet the criteria of special purpose entities, and the substance of the relationship between the corporation and Avrio Fund I and Avrio Fund II indicates that the corporation controls Avrio Fund I and Avrio Fund II in accordance with SIC-12 – Consolidation – Special Purpose Entities.

2. Significant accounting policies (continued)

- **Finance leases receivable**
  In applying the classification of leases in IAS 17 – Leases, management considers leases of agricultural equipment to be either finance or operating lease arrangements. In some cases, the lease transaction is not always conclusive and management uses judgment in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership.

- **Computer software**
  A significant portion of the corporation's computer software expenditures relates to software that is developed as part of internal infrastructures and, to a lesser extent, purchased directly from suppliers. Management has a process to monitor the progress of internal research and development projects. Significant judgment is required in distinguishing between the research and development phases. Research costs are expensed as incurred, whereas development costs are recognized as an asset when all criteria are met. Management monitors whether the recognition requirements for development costs continue to be met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems after the time of recognition.

Estimation uncertainty

The preparation of the consolidated financial statements in accordance with IFRS requires that management make judgments, estimates and assumptions concerning the future that affect the reported amounts in the consolidated financial statements and accompanying notes. Judgments, estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these judgments, estimates and assumptions. Information about the significant judgments, estimates and assumptions that are critical to the recognition and measurement of assets, liabilities, income and expense are discussed below.

- **Allowance for credit losses**
  The corporation reviews its loan and lease portfolio to assess impairment. The corporation makes judgments when determining whether a loss event has occurred as well as estimates and assumptions in the measurement of the resulting impairment loss. Management uses best estimates based on historical loss experience for loans and leases with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

- **Defined benefit liability**
  The estimate of the defined benefit liability for pension and non-pension post-retirement benefits is actuarially determined and incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial assumptions. One of the more significant assumptions used is the discount rate. Management determines the appropriate discount rate at the end of each year. This is the interest rate that determines the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, management considers the interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Any changes in these assumptions will affect the carrying values of defined benefit liabilities.

- **Reserve for insurance claims**
  The reserve for insurance claims is based on certain estimates and assumptions, including expected future mortality experience and interest rates. Higher mortality experience and increased interest rates would be financially adverse to the corporation. The corporation's mortality experience is combined with industry experience, since the corporation's own experience is insufficient to be statistically credible.

2. Significant accounting policies (continued)

- **Useful lives of depreciable assets**
  During the software development process and when new equipment, leasehold improvements and computer software are being purchased, management's judgment and estimates are required to determine the expected period of benefit over which capitalized costs should be amortized. Management reviews the useful lives of depreciable assets at each reporting date. Actual results may vary because of technical obsolescence, particularly for software and information technology equipment due to rapidly changing technology and the uncertainty of the software development process.
- **Impairment of assets**
  The corporation assesses impairment by comparing the recoverable amount of an asset with its carrying value. The determination of the recoverable amount involves significant management judgment, estimates and assumptions. The corporation performs its test for impairment on an annual basis in accordance with the policies as described throughout the Significant Accounting Policies note.
- **Fair value of financial instruments**
  The fair value of financial instruments is determined based on published quoted market prices or valuation techniques when quoted market prices are not available. Fair values are point-in-time estimates that may change significantly in subsequent reporting periods due to changes in market conditions. Fair value techniques use models and assumptions about future events, based on either observable or non-observable market inputs. As such, fair values are estimates involving uncertainties and may be significantly different when compared to another financial institution's value for a similar contract. The methods used to value the corporation's financial instruments measured at fair value are as follows:

  - The estimated fair value of temporary investments is calculated by discounting contractual cash flows at interest rates prevailing at the reporting date for equivalent securities.
  - The estimated fair value of derivative financial assets and liabilities is determined using market standard valuation techniques. Where call or extension options exist, the value of these options is determined using current market measures for interest rates and currency exchange rates and by taking volatility levels and estimations for other market-based pricing factors into consideration. Market-observed credit spreads, where available, are a key factor in establishing valuation adjustments against the corporation's counterparty credit exposures. Where the counterparty does not have an observable credit spread, a proxy that reflects the credit profile of the counterparty is used.
  - Venture capital investments in shares that are traded on an exchange are valued based on the bid prices as at the reporting date. Venture capital investments in shares of privately held companies are valued based on guidelines issued by the venture capital industry, using market-based valuation methodologies. Estimated fair value of venture capital debt investments is calculated by discounting contractual cash flows at interest rates prevailing at the reporting date with equivalent terms to maturity.
  - The estimated fair value of structured notes is calculated by discounting contractual cash flows at interest rates prevailing at the reporting date for equivalent terms to maturity or by using quoted market prices where available. Inputs used to determine the fair value include currency exchange rates, credit spreads, yield curves and volatility levels. Where embedded optionality exists (call features), fair values are derived using market standard valuation models and techniques. The value of the embedded options is determined using market measures for interest rates, currency exchange rates and volatility levels and estimations for other market-based pricing factors.

2. Significant accounting policies (continued)

Accounting standards issued but not yet effective

The corporation has reviewed the new standards and amendments that have been issued but are not yet effective and determined that the following may have an impact on the corporation. Management is in the process of assessing the impact of these standards and amendments on the corporation's financial statements and accounting policies.

Standard	Details	Annual periods commencing on or after
IFRS 7 – Financial Instruments: Disclosures	The amended standard was issued together with the amended IAS 32 – Financial Instruments: Presentation to enhance disclosures about the offsetting of financial assets and financial liabilities.	January 1, 2015
IFRS 9 – Financial Instruments	The new standard provides requirements for classifying and measuring financial assets and liabilities. This standard is the first in a three-phase project in progress by the IASB to replace IAS 39 – Financial Instruments: Recognition and Measurement in its entirety. It is anticipated that this standard will result in a change in classification of the corporation's temporary investments from AFS to fair value through profit and loss.	January 1, 2015
IFRS 10 – Consolidated Financial Statements	The new standard replaces the consolidation requirements in IAS 27 – Consolidated and Separate Financial Statements and SIC-12 – Consolidation – Special Purpose Entities. It establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. No significant changes are anticipated as a result of this standard.	January 1, 2013
IFRS 12 – Disclosure of Interests in Other Entities	The new standard is on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. It is anticipated that this standard will result in increased disclosure on venture capital investments.	January 1, 2013
IFRS 13 – Fair Value Measurement	The new standard establishes new guidance on fair value measurement and disclosure requirements. It is anticipated that this standard will result in increased disclosure on fair value measurement.	January 1, 2013
IAS 19 – Employee Benefits	The standard was amended to improve the recognition, presentation and disclosure of defined benefit plans. The amendments revise the calculation of finance costs, which are included in net income. It is anticipated that finance costs will increase, offset by an increase in OCI.	January 1, 2013
IAS 28 – Investments in Associates	This standard was reissued as Investments in Associates and Joint Ventures, as a result of the new standards IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements and IFRS 12 – Disclosure of Interests in Other Entities. No significant changes are anticipated as a result of this standard.	January 1, 2013
IAS 32 – Financial Instruments: Presentation	The amended standard was issued together with the amended IFRS 7 – Financial Instruments: Disclosures to clarify the guidance on the offsetting of financial assets and financial liabilities.	January 1, 2014

3. Transition to IFRS

As stated in Note 2, these are the first annual consolidated financial statements prepared by the corporation in accordance with IFRS. IFRS 1 – First-time Adoption of International Reporting Standards requires that comparative financial information be provided. As a result, the first date at which the corporation has applied IFRS was April 1, 2010 (the "transition date").

In preparing its opening IFRS Consolidated Balance Sheet, the corporation has adjusted amounts reported previously in consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP). An explanation of how the transition from Canadian GAAP to IFRS has affected the corporation's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Reconciliation of equity

($ thousands)	March 31, 2011	April 1, 2010
Total equity under Canadian GAAP	$ 2,768,630	$ 2,345,055
Differences (decreasing) increasing retained earnings		
Employee benefits (Note a)	(84,716)	(129,209)
Loan origination costs (Note b)	(9,791)	(6,038)
Fees assessed after loan origination (Note c)	7,248	3,309
Total equity under IFRS	$ 2,681,371	$ 2,213,117

Reconciliation of comprehensive income

($ thousands)	March 31, 2011
Total comprehensive income under Canadian GAAP	$ 437,396
Differences increasing (decreasing) net income	
Employee benefits (Note a)	799
Loan origination costs (Note b)	(3,753)
Fees assessed after loan origination (Note c)	3,939
Difference increasing other comprehensive income	
Employee benefits (Note a)	43,694
Total comprehensive income under IFRS	$ 482,075

3. Transition to IFRS (continued)

Reconciliation of Consolidated Balance Sheet as at April 1, 2010

($ thousands)

Canadian GAAP accounts	Canadian GAAP	IFRS adjustments	Reclassifications	IFRS	IFRS accounts
Assets					**Assets**
Cash and cash equivalents	$ 628,023	$ –	$ –	$ 628,023	Cash and cash equivalents
Temporary investments	199,818	–	–	199,818	Temporary investments
Accounts receivable	32,818	–	–	32,818	Accounts receivable
Derivative financial assets	66,945	–	–	66,945	Derivative financial assets
	927,604	–	–	927,604	
Loans receivable – net	19,159,940	(2,729)	–	19,157,211	Loans receivable – net
Finance leases receivable – net	2,827	–	–	2,827	Finance leases receivable – net
Venture capital investments	59,987	–	–	59,987	Venture capital investments
	19,222,754	(2,729)	–	19,220,025	
Equipment and leasehold improvements	31,513	–	–	31,513	Equipment and leasehold improvements
Computer software	42,814	–	–	42,814	Computer software
Equipment under operating leases	14,867	–	–	14,867	Equipment under operating leases
Other assets	46,791	(32,332)	–	14,459	Other assets
	135,985	(32,332)	–	103,653	
Total assets	$ 20,286,343	$ (35,061)	$ –	$ 20,251,282	**Total assets**
Liabilities					**Liabilities**
Accounts payable and accrued liabilities	$ 48,635	$ 1,229	$ –	$ 49,864	Accounts payable and accrued liabilities
Derivative financial liabilities	6,843	–	–	6,843	Derivative financial liabilities
	55,478	1,229	–	56,707	
Borrowings					**Borrowings**
Short-term debt	8,810,407	–	–	8,810,407	Short-term debt
Long-term debt	8,948,764	–	–	8,948,764	Long-term debt
	17,759,171	–	–	17,759,171	
Transition Loan liability	–	–	83,182	83,182	Transition Loan liability
Retirement benefit liabilities	–	–	130,772	130,772	Retirement benefit liabilities
Other liabilities	126,639	95,648	(213,954)	8,333	Other liabilities
	126,639	95,648	–	222,287	
Shareholder's equity					**Equity**
Contributed surplus	547,725	–	–	547,725	Contributed surplus
Retained earnings	1,584,266	(131,938)	–	1,452,328	Retained earnings
Accumulated other comprehensive income	203,603	–	–	203,603	Accumulated other comprehensive income
Equity attributable to to shareholder of parent entity	2,335,594	(131,938)	–	2,203,656	**Equity attributable to shareholder of parent entity**
Non-controlling interest in variable interest entity	9,461	–	–	9,461	Non-controlling interest in special purpose entity
	2,345,055	(131,938)	–	2,213,117	
Total liabilities and shareholder's equity	$ 20,286,343	$ (35,061)	$ –	$ 20,251,282	**Total liabilities and equity**

3. Transition to IFRS (continued)

Reconciliation of Consolidated Balance Sheet as at March 31, 2011

($ thousands)

Canadian GAAP accounts	Canadian GAAP	IFRS adjustments	Reclassifications	IFRS	IFRS accounts
Assets					**Assets**
Cash and cash equivalents	$ 601,840	$ –	$ –	$ 601,840	Cash and cash equivalents
Temporary investments	284,162	–	–	284,162	Temporary investments
Accounts receivable	12,676	–	–	12,676	Accounts receivable
Derivative financial assets	47,407	–	–	47,407	Derivative financial assets
	946,085	–	–	946,085	
Loans receivable – net	20,748,432	(2,541)	–	20,745,891	Loans receivable – net
Finance leases receivable – net	4,912	–	–	4,912	Finance leases receivable – net
Venture capital investments	58,024	–	–	58,024	Venture capital investments
	20,811,368	(2,541)	–	20,808,827	
Equipment and leasehold improvements	29,314	–	–	29,314	Equipment and leasehold improvements
Computer software	42,124	–	–	42,124	Computer software
Equipment under operating leases	19,077	–	–	19,077	Equipment under operating leases
Other assets	62,089	(36,805)	–	25,284	Other assets
	152,604	(36,805)	–	115,799	
Total assets	$ 21,910,057	$ (39,346)	$ –	$ 21,870,711	**Total assets**
Liabilities					**Liabilities**
Accounts payable and accrued liabilities	$ 50,656	$ 1,497	$ –	$ 52,153	Accounts payable and accrued liabilities
Derivative financial liabilities	4,724	–	–	4,724	Derivative financial liabilities
	55,380	1,497	–	56,877	
Borrowings					**Borrowings**
Short-term debt	8,029,920	–	–	8,029,920	Short-term debt
Long-term debt	10,921,999	–	–	10,921,999	Long-term debt
	18,951,919	–	–	18,951,919	
Transition Loan liability	–	–	84,245	84,245	Transition Loan liability
Retirement benefit liabilities	–	–	86,275	86,275	Retirement benefit liabilities
Other liabilities	134,128	46,416	(170,520)	10,024	Other liabilities
	134,128	46,416	–	180,544	
Shareholder's equity					**Equity**
Contributed surplus	547,725	–	–	547,725	Contributed surplus
Retained earnings	2,025,725	(87,259)	–	1,938,466	Retained earnings
Accumulated other comprehensive income	181,804	–	–	181,804	Accumulated other comprehensive income
Equity attributable to shareholder of parent entity	2,755,254	(87,259)	–	2,667,995	**Equity attributable to shareholder of parent entity**
Non-controlling interest in variable interest entity	13,376	–	–	13,376	Non-controlling interest in special purpose entity
	2,768,630	(87,259)	–	2,681,371	
Total liabilities and shareholder's equity	$ 21,910,057	$ (39,346)	$ –	$ 21,870,711	**Total liabilities and equity**

3. Transition to IFRS (continued)

Notes to the reconciliations

(a) Employee benefits

(i) Under IFRS, the corporation's accounting policy is to recognize actuarial gains and losses in OCI at March 31 of each year. The corporation has elected to recognize all cumulative actuarial gains and losses for its defined benefit plans at the transition date. The transitional adjustment to retained earnings relating to this item was a decrease of $63.5 million. Further, the corporation has elected to use the exemption to not disclose the present value of the defined benefit obligation, fair value of the plan assets, defined benefit plan surplus or deficit and experience adjustments before the transition date. The impact for the year ended March 31, 2011, was an increase to net income and OCI of $2.8 million and $1.9 million, respectively.

(ii) Under IFRS, the corporation will recognize a liability immediately for all past service costs arising from plan amendments to the extent that the benefits are already vested, and otherwise will recognize them on a straight-line basis over the average period until the benefits become vested. Under Canadian GAAP, all past service costs from plan amendments were amortized over the average remaining service period of active employees when the amendment was recognized. On transition, the corporation recognized all vested past service costs and the impact to retained earnings was a decrease of $1.2 million. The impact for the year ended March 31, 2011, was an increase to net income of $0.1 million.

(iii) IFRS requires that if the corporation has a net pension asset for its defined benefit obligation, the asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of the economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the corporation. An economic benefit is available to the corporation if it is realizable during the life of the plan or on settlement of the plan liabilities. Canadian GAAP did not calculate the asset ceiling in this manner. On transition, the corporation recognized an additional liability and the impact to retained earnings was a decrease of $41.8 million. The impact to OCI for the year ended March 31, 2011, was an increase of $41.8 million.

(iv) Under IFRS, the measurement date for the accrued benefit obligation and the plan assets must be a date such that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period. Under Canadian GAAP, the plan assets and accrued benefit obligation were measured three months before the date of the annual financial statements. On transition, the corporation recognized a $21.5-million decrease to retained earnings as a result of the measurement date change. The impact for the year ended March 31, 2011, was a decrease to net income of $1.8 million.

(v) IFRS requires the corporation to record a liability for accumulating short-term compensated absences that do not vest. The expense is recognized when the employee renders service that increases his or her entitlement to future compensated absences that do not vest. Canadian GAAP did not require a liability for this type of short-term employee benefit to be recorded. The transitional adjustment to retained earnings to record the obligation was a decrease of $1.2 million. The impact to net income for the year ended March 31, 2011, was a decrease of $0.3 million.

(b) Loan origination costs

Under IFRS, loan origination costs must be incremental and directly attributable to the loan origination. Loan origination costs must be deferred and recognized over the expected term of the loan using the effective interest rate method. Under Canadian GAAP, a portion of loan administration expenses were deferred and recognized over the expected term of the loan using the effective interest rate method, as they were considered direct costs of negotiating and executing loan agreements. These costs do not meet the criteria of loan origination costs under IFRS, and the deferred balance was recognized at transition. The transitional impact to retained earnings was a decrease of $6.0 million. The impact to net income for the year ended March 31, 2011, was a decrease of $3.8 million.

3. Transition to IFRS (continued)

(c) Fees assessed after loan origination

Under IFRS, fees assessed after loan origination are recognized in income immediately. This includes conversions, re-amortizations, terming out and payment schedule amendments, which, under Canadian GAAP, were deferred and recognized over the expected term of the loan using the effective interest rate method. The deferred balance was recognized at transition. The transitional impact to retained earnings was an increase of $3.3 million. The impact to net income for the year ended March 31, 2011, was an increase of $3.9 million.

(d) Unwind adjustment

When a loan is classified as impaired, the carrying value is reduced to its estimated realizable amount through an adjustment to the allowance for credit losses. An impairment loss is recorded as the difference between the loan's carrying value and the present value of discounted estimated future cash flows. In subsequent periods, any change in the present value of estimated future cash flows attributable to the passage of time adjusts the allowance for credit losses through the unwinding of the discount. The amount of the adjustment is recorded as income. Under IFRS, this income is recognized in interest income while, under Canadian GAAP, it was recognized as a reduction to the provision for credit losses. There is no impact to total comprehensive income for the year ended March 31, 2011.

Other IFRS elections at transition

Business combinations

The corporation has elected not to apply IFRS 3 – Business Combinations retrospectively to business combinations that occurred before the transition date to IFRS. Therefore, prior business combinations have not been restated. There is no effect on the corporation's financial statements at transition from applying this exemption.

Leases

The corporation has elected under IFRS 1 not to reassess whether an arrangement contains a lease under IFRIC 4 – Determining Whether an Arrangement Contains a Lease for contracts that were assessed under Canadian GAAP. Arrangements entered into before the effective date of EIC 150 – Determining Whether an Arrangement Contains a Lease that have not subsequently been assessed under EIC 150 were assessed under IFRIC 4, and no additional leases were identified. There is no financial statement impact at transition as a result of this election.

Borrowing costs

Under Canadian GAAP, the corporation expensed borrowing costs as incurred. At the transition date, the corporation elected to capitalize borrowing costs only in respect of qualifying assets for which the commencement date for capitalization was on or after the transition date. There is no financial statement impact at transition as a result of this election.

Reclassifications

Certain Canadian GAAP figures have been reclassified to conform to the current year's presentation. As at April 1, 2010, $83.1 million and $130.8 million have been reclassified from other liabilities to the Transition Loan liability and retirement benefit liabilities categories, respectively. As at March 31, 2011, $84.2 million and $86.3 million have been reclassified from other liabilities to the Transition Loan liability and retirement benefit liabilities categories, respectively. As at March 31, 2011, $26.5 million of net interest on derivative financial assets and liabilities designated as cash flow hedges has been reclassified from interest expense to interest income. As at March 31, 2011, $3.7 million of depreciation on equipment under operating leases has been reclassified from interest income to interest expense.

4. Temporary investments

($ thousands)		March 31, 2012 Carrying value	March 31, 2012 Yield		March 31, 2011 Carrying value	March 31, 2011 Yield		April 1, 2010 Carrying value	April 1, 2010 Yield
Short-term instruments	$	**83,813**	**1.09%**	$	284,162	1.12%	$	199,818	0.32%

Short-term instruments consist of deposit notes, bankers' acceptance and treasury bills issued by institutions with credit ratings of R-1M or higher (2011 – R-1M or higher; 2010 – R-1M or higher) as rated by the Dominion Bond Rating Service. As at March 31, 2012, the largest total investment in any one institution was $63.9 million (2011 – $123.6 million; 2010 – $89.9 million).

All temporary investments have an initial term maturity of 91 to 365 days and will mature within three months of the balance sheet date.

5. Derivative financial instruments

($ thousands)		March 31, 2012		March 31, 2011		April 1, 2010
Derivative financial assets						
Derivatives designated as cash flow hedges	$	**67,408**	$	46,310	$	65,023
Derivatives classified as HFT		**490**		1,097		1,922
	$	**67,898**	$	47,407	$	66,945
Derivative financial liabilities						
Derivatives designated as cash flow hedges	$	**–**	$	4,475	$	3,819
Derivatives classified as HFT		**84**		249		3,024
	$	**84**	$	4,724	$	6,843

Types of derivative contracts

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest. Notional amounts upon which interest payments and receipts are based are not exchanged. Cross-currency interest rate swaps are transactions in which two parties exchange notional amounts in different currencies at inception and maturity, as well as interest flows, on the exchanged amounts on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest.

The derivative contracts entered into by the corporation are over-the-counter instruments.

Cash flow hedges

Cash flow hedges consist of interest rate swaps. The corporation is exposed to variability in future interest cash flows on non-trading assets that bear interest at variable rates. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for the financial assets on the basis of their contractual terms and other relevant factors. The principal balances and interest cash flows over time form the basis for identifying the effective portion of gains and losses on the derivatives designated as cash flow hedges of forecasted transactions.

As at March 31, 2012, the estimated amount of existing net gains reported in AOCI that is expected to be transferred to net income within the next 12 months is $22.6 million.

The maximum length of time over which the corporation is hedging its exposure to the variability in future cash flows for anticipated transactions is 10 years.

5. Derivative financial instruments (continued)

Notional principal amounts and term to maturity

($ thousands)		March 31, 2012 Within 1 year	1 – 5 years	Over 5 years	Total
Interest rate swaps					
Receive	**Pay**				
Fixed	Floating	$ 5,000	$ 94,675	$ 237,994	$ 337,669
Cross-currency	Fixed	3,365	–	–	3,365
		$ 8,365	$ 94,675	$ 237,994	$ 341,034

($ thousands)		March 31, 2011 Within 1 year	1 – 5 years	Over 5 years	Total
Interest rate swaps					
Receive	**Pay**				
Fixed	Floating	$ 350,000	$ 449,675	$ 297,300	$ 1,096,975
Cross-currency	Fixed	–	3,397	–	3,397
		$ 350,000	$ 453,072	$ 297,300	$ 1,100,372

($ thousands)		April 1, 2010 Within 1 year	1 – 5 years	Over 5 years	Total
Interest rate swaps					
Receive	**Pay**				
Fixed	Floating	$ –	$ 555,189	$ 601,675	$ 1,156,864
Cross-currency	Floating	–	–	22,704	22,704
Cross-currency	Fixed	–	3,679	–	3,679
		$ –	$ 558,865	$ 624,379	$ 1,183,247

5. Derivative financial instruments (continued)

Counterparty credit risk

Derivatives that have a positive fair value are subject to counterparty risk because the positive fair value indicates that over time the corporation can expect to receive cash flows from the counterparties based on the terms of the contract and current market conditions.

The net fair values of the derivative instruments are as follows:

	March 31, 2012		
($ thousands)	Positive fair value	Negative fair value	Net fair value
Interest rate swaps	$ 67,898	$ –	$ 67,898
Cross-currency interest rate swaps	–	84	(84)
Fair value	67,898	84	67,814
Impact of master netting agreements	(57)	(57)	–
	$ 67,841	$ 27	$ 67,814

	March 31, 2011		
($ thousands)	Positive fair value	Negative fair value	Net fair value
Interest rate swaps	$ 47,407	$ 4,475	$ 42,932
Cross-currency interest rate swaps	–	249	(249)
Fair value	47,407	4,724	42,683
Impact of master netting agreements	(4,694)	(4,694)	–
	$ 42,713	$ 30	$ 42,683

	April 1, 2010		
($ thousands)	Positive fair value	Negative fair value	Net fair value
Interest rate swaps	$ 66,945	$ 6,474	$ 60,471
Cross-currency interest rate swaps	–	369	(369)
Fair value	66,945	6,843	60,102
Impact of master netting agreements	(6,810)	(6,810)	–
	$ 60,135	$ 33	$ 60,102

The corporation does not anticipate any significant non-performance by counterparties because all counterparties are rated Aa2 or higher, as rated by Moody's Investors Service (Moody's). The largest cumulative notional amount contracted with any institution as at March 31, 2012, was $139.3 million (2011 – $350.0 million; 2010 – $450.0 million) and the largest net fair value of contracts with any institution as at March 31, 2012, was $23.8 million (2011 – $13.6 million; 2010 – $17.5 million). The corporation mitigates the credit exposure on multiple derivative transactions by entering into master netting agreements with counterparties as outlined in Note 24. These agreements create the legal right of offset of exposure in the event of default.

Using reasonable possible alternative assumptions for valuing derivatives would not have a material effect on the corporation's financial position or earnings. To determine reasonably possible alternative assumptions, the corporation adjusted key unobservable model inputs. These adjustments included de-correlating interest rates and subjecting parameters to a large shift.

6. Loans receivable – net

The following table summarizes the contractual maturity and effective interest rates of the performing loans receivable as at March 31, 2012. The yields are computed on a weighted-average basis by amount and term. Floating-rate loans are linked to the bank prime rate and re-priced with changes in the rate.

	March 31, 2012			
($ thousands)	Within 1 year	1 – 5 years	Over 5 years	Total
Floating	**$ 1,241,440**	**$ 12,789,350**	**$ 779,763**	**$ 14,810,553**
Yield	**3.89%**	**3.98%**	**3.79%**	**3.96%**
Fixed	**1,089,958**	**5,348,495**	**1,691,161**	**8,129,614**
Yield	**5.20%**	**4.85%**	**5.67%**	**5.07%**
Performing loans				**22,940,167**
Impaired loans				**285,118**
Deferred loan fees				**(23,026)**
Loans receivable – gross				**23,202,259**
Allowance for credit losses				**(621,950)**
Loans receivable – net				**$ 22,580,309**

	March 31, 2011			
($ thousands)	Within 1 year	1 – 5 years	Over 5 years	Total
Floating	$ 1,007,473	$ 12,762,603	$ 836,183	$ 14,606,259
Yield	4.33%	3.93%	3.85%	3.95%
Fixed	901,801	4,058,505	1,547,054	6,507,360
Yield	5.73%	5.64%	6.14%	5.77%
Performing loans				21,113,619
Impaired loans (restated)				310,636
Deferred loan fees				(22,986)
Loans receivable – gross (restated)				21,401,269
Allowance for credit losses (restated)				(655,378)
Loans receivable – net				$ 20,745,891

	April 1, 2010			
($ thousands)	Within 1 year	1 – 5 years	Over 5 years	Total
Floating	$ 1,118,906	$ 11,164,296	$ 845,227	$ 13,128,429
Yield	4.32%	3.08%	3.24%	3.20%
Fixed	830,128	3,860,899	1,741,155	6,432,182
Yield	5.95%	5.92%	6.21%	6.00%
Performing loans				19,560,611
Impaired loans (restated)				282,769
Deferred loan fees				(29,706)
Loans receivable – gross (restated)				19,813,674
Allowance for credit losses (restated)				(656,463)
Loans receivable – net				$ 19,157,211

Management estimates that annually, over the next three years, approximately 6.3% (2011 – approximately 6.5%; 2010 – approximately 6.5%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2012, $97.3 million (2011 – $57.5 million; 2010 – $64.9 million) of loans receivable were denominated in U.S. dollars (USD).

6. Loans receivable – net (continued)

The comparative information has been adjusted to conform to the corporation's accounting policies and to ensure that fully impaired loans are written off only at the point in time where collection efforts have been fully exhausted. The adjustments consist of an increase to both impaired loans and the allowance for credit losses by $69.3 million as at March 31, 2011, and $46.1 million as at April 1, 2010. There is no impact to the Consolidated Balance Sheet or the Consolidated Statement of Operations.

Concentrations of credit risk

The concentrations of performing loans and impaired loans by enterprise and geographic area are as follows:

Enterprise distribution

	Performing			Impaired		
($ thousands)	**March 31, 2012**	March 31, 2011	April 1, 2010	**March 31, 2012**	March 31, 2011 Restated	April 1, 2010 Restated
Cash crops	**$ 8,458,662**	$ 7,568,906	$ 6,973,079	**$ 50,828**	$ 79,381	$ 47,284
Dairy	**4,800,021**	4,564,786	4,374,364	**15,625**	12,572	5,108
Other	**3,325,268**	2,459,874	2,312,794	**39,221**	41,059	43,876
Value-added	**2,400,461**	2,422,799	1,865,483	**54,898**	81,806	70,141
Poultry	**1,581,851**	1,472,401	1,372,485	**1,725**	4,341	13,550
Beef	**1,330,738**	1,545,068	1,522,184	**17,897**	28,687	31,389
Hogs	**1,043,166**	1,079,785	1,140,222	**104,924**	62,790	71,421
Total	**$ 22,940,167**	$ 21,113,619	$ 19,560,611	**$ 285,118**	$ 310,636	$ 282,769

Geographic distribution

	Performing			Impaired		
($ thousands)	**March 31, 2012**	March 31, 2011	April 1, 2010	**March 31, 2012**	March 31, 2011 Restated	April 1, 2010 Restated
Western	**$ 6,917,923**	$ 6,429,437	$ 5,940,816	**$ 78,664**	$ 109,413	$ 94,440
Prairie	**5,385,652**	4,936,189	4,527,475	**107,593**	85,177	77,761
Ontario	**6,996,890**	6,357,975	6,038,210	**21,772**	24,936	50,747
Quebec	**2,700,004**	2,446,594	2,191,470	**41,499**	41,855	29,902
Atlantic	**939,698**	943,424	862,640	**35,590**	49,255	29,919
Total	**$ 22,940,167**	$ 21,113,619	$ 19,560,611	**$ 285,118**	$ 310,636	$ 282,769

7. Finance leases receivable – net

($ thousands)	**March 31, 2012**	March 31, 2011	April 1, 2010
Total minimum finance lease payments receivable			
Less than one year	**$ 3,846**	$ 2,105	$ 1,351
Between one and five years	**6,628**	3,332	1,856
Finance leases receivable – gross	**10,474**	5,437	3,207
Unearned finance income	**(789)**	(441)	(325)
Allowance for credit losses	**(144)**	(84)	(55)
Finance leases receivable – net	**$ 9,541**	$ 4,912	$ 2,827

The corporation retains as collateral a security interest in the equipment associated with finance leases. The maximum term for finance leases receivable is five years.

8. Allowance for credit losses

($ thousands)	March 31, 2012 Loans receivable	March 31, 2012 Finance leases receivable	March 31, 2012 Total	March 31, 2011 Loans receivable Restated	March 31, 2011 Finance leases receivable	March 31, 2011 Total Restated
Individual allowance, beginning of year (restated)	$ 157,734	$ –	$ 157,734	$ 134,118	$ –	$ 134,118
Provision for credit losses	13,099	–	13,099	52,406	–	52,406
Losses covered under HILLRP	2,623	–	2,623	(2,960)	–	(2,960)
Unwind adjustment	535	–	535	(1,197)	–	(1,197)
Writeoffs	(36,074)	–	(36,074)	(25,106)	–	(25,106)
Recoveries	2,883	–	2,883	473	–	473
Individual allowance, end of year	$ 140,800	$ –	$ 140,800	$ 157,734	$ –	$ 157,734
Collective allowance, beginning of year	$ 497,644	$ 84	$ 497,728	$ 522,345	$ 55	$ 522,400
Provision for credit losses	(11,378)	60	(11,318)	(16,836)	29	(16,807)
Losses covered under HILLRP	(1,682)	–	(1,682)	2,329	–	2,329
Writeoffs	(3,608)	–	(3,608)	(10,433)	–	(10,433)
Recoveries	174	–	174	239	–	239
Collective allowance, end of year	$ 481,150	$ 144	$ 481,294	$ 497,644	$ 84	$ 497,728
Total allowance	$ 621,950	$ 144	$ 622,094	$ 655,378	$ 84	$ 655,462

A change in estimate was required in the current period due to a refinement to the underlying assumptions used to calculate the collective allowance for credit losses as a result of more experience. The magnitude of the impact was an increase to the allowance for credit losses and the provision for credit losses of $51.7 million as at March 31, 2012.

9. Venture capital investments

($ thousands)		March 31, 2012		March 31, 2011		April 1, 2010
Investments designated at fair value through profit or loss	$	**53,527**	$	48,438	$	54,414
Investment in associate		**–**		9,586		5,573
	$	**53,527**	$	58,024	$	59,987

The investment in associate was sold in January 2012 and resulted in a realized gain of $34.0 million that is included in other income. It is anticipated that further gains of approximately $7.1 million will be realized in future periods, subject to fulfilment of certain conditions of the sale agreement.

For the year ended March 31, 2012, the total amount of net gains realized on disposal of venture capital investments designated at fair value through profit or loss and reported in fair value adjustment was $2.1 million (2011 – $2.2 million).

Carrying value by type of investment

($ thousands)		March 31, 2012		March 31, 2011		April 1, 2010
Preferred shares	$	**29,954**	$	25,641	$	20,766
Debt		**14,003**		14,293		13,500
Common shares		**9,570**		18,090		25,721
	$	**53,527**	$	58,024	$	59,987

As at March 31, 2012, $0.1 million (2011 – $0.4 million; 2010 – $3.0 million) of venture capital debt investments is due to the corporation within one year and $13.9 million (2011 – $13.9 million; 2010 – $10.5 million) is due between one and five years.

Concentrations of venture capital investments by sector

($ thousands)		March 31, 2012		March 31, 2011		April 1, 2010
Food processing and manufacturing	$	**19,051**	$	20,122	$	26,828
Bio-based fuels and chemicals		**18,938**		18,519		14,106
Agriculture biotechnology		**15,538**		19,383		19,053
	$	**53,527**	$	58,024	$	59,987

The total amount of fees, interest and dividends recorded in interest income during the year for venture capital investments designated at fair value through profit or loss was $2.4 million (2011 – $1.4 million). The total income recorded in other income for the associate venture capital investments during the year was $0.7 million (2011 – $3.0 million), excluding the gain on the sale of the investment in associate.

In addition to the above investments, the corporation has loans receivable from venture capital investees in the amount of $27.7 million (2011 – $35.8 million; 2010 – $47.3 million) and guarantees from venture capital investees in the amount of $nil (2011 – $7.7 million; 2010 – $12.7 million).

The venture capital investment portfolio exposes the corporation to credit risk. Venture capital investments are typically secured by a general security agreement, assignment of life insurance proceeds and personal guarantees. As at March 31, 2012, the gross amount of venture capital debt investments that were in arrears was $nil (2011 – $0.1 million; 2010 – $5.5 million).

The potential effect of using reasonable possible alternative assumptions for valuing venture capital investments that are measured at fair value would not have a material effect on the corporation's financial position or earnings.

10. Equipment and leasehold improvements

($ thousands)	Leasehold improvements	Office equipment and furniture	Computer equipment	Total
Cost				
Balance as at April 1, 2010	$ 37,570	$ 26,759	$ 12,069	$ 76,398
Additions	5,684	1,676	1,605	8,965
Disposals	(2,123)	(1,660)	(2,124)	(5,907)
Balance as at March 31, 2011	$ **41,131**	$ **26,775**	$ **11,550**	$ **79,456**
Additions	4,480	2,120	1,548	8,148
Disposals	(542)	(391)	(1,168)	(2,101)
Balance as at March 31, 2012	$ **45,069**	$ **28,504**	$ **11,930**	$ **85,503**
Accumulated depreciation				
Balance as at April 1, 2010	$ 18,139	$ 18,100	$ 8,646	$ 44,885
Depreciation	5,584	2,944	2,321	10,849
Disposals	(1,817)	(1,660)	(2,115)	(5,592)
Balance as at March 31, 2011	$ **21,906**	$ **19,384**	$ **8,852**	$ **50,142**
Depreciation	6,001	2,928	1,841	10,770
Disposals	(509)	(388)	(1,167)	(2,064)
Balance as at March 31, 2012	$ **27,398**	$ **21,924**	$ **9,526**	$ **58,848**
Carrying value				
April 1, 2010	$ 19,431	$ 8,659	$ 3,423	$ 31,513
March 31, 2011	19,225	7,391	2,698	29,314
March 31, 2012	**17,671**	**6,580**	**2,404**	**26,655**

11. Computer software

($ thousands)	
Cost	
Balance as at April 1, 2010	$ 92,156
Additions:	
Internally developed	12,694
Purchased	1,870
Disposals	(2,675)
Balance as at March 31, 2011	$ **104,045**
Additions:	
Internally developed	8,948
Purchased	640
Disposals	–
Balance as at March 31, 2012	$ **113,633**
Accumulated amortization	
Balance as at April 1, 2010	$ 49,342
Amortization	15,252
Disposals	(2,673)
Balance as at March 31, 2011	$ **61,921**
Amortization	11,621
Disposals	–
Balance as at March 31, 2012	**73,542**
Carrying value	
April 1, 2010	$ 42,814
March 31, 2011	42,124
March 31, 2012	**40,091**

11. Computer software (continued)

Included in the carrying value as at March 31, 2012, is $22.0 million (2011 – $23.3 million; 2010 – $22.1 million) consisting of internally generated software related to the business process and technology transformation program (BK), which is being developed to enhance speed, reduce manual effort and provide the corporation with the capability to enhance agility in the technology arena. As at March 31, 2012, certain components of BK were not completed and available for use therefore, amortization has not yet begun. For the BK components that have been completed and are available for use, the remaining amortization period is between two and five years.

Research and development costs related to internally developed computer software in the amount of $0.7 million (2011 – $1.1 million) have been included within facilities, software and equipment expenses.

12. Equipment under operating leases

($ thousands)		
Cost		
Balance as at April 1, 2010	$	17,405
Additions		10,658
Disposals		(2,767)
Balance as at March 31, 2011	$	**25,296**
Additions		17,398
Disposals		(3,035)
Balance as at March 31, 2012	**$**	**39,659**
Accumulated depreciation		
Balance as at April 1, 2010	$	2,537
Depreciation (Note 17)		3,682
Balance as at March 31, 2011	$	**6,219**
Depreciation (Note 17)		5,109
Balance as at March 31, 2012	**$**	**11,328**
Carrying value		
April 1, 2010	$	14,867
March 31, 2011		19,077
March 31, 2012		**28,331**

13. Other assets

($ thousands)		**March 31, 2012**		March 31, 2011		April 1, 2010
Insurance reserve assets	**$**	**17,559**	$	15,014	$	11,985
Real estate property held for sale		**682**		859		834
Other		**66**		39		57
Retirement benefit assets		**–**		9,372		1,583
	$	**18,307**	$	25,284	$	14,459

14. Borrowings

Short-term debt

($ thousands)	March 31, 2012	March 31, 2011	April 1, 2010
Government of Canada debt			
Floating-rate borrowings	$ 6,051,606	$ 4,586,281	$ 2,403,198
Fixed-rate borrowings	3,171,566	3,023,116	6,109,733
	$ 9,223,172	$ 7,609,397	$ 8,512,931
Retail and institutional fixed-rate notes	238,994	363,281	232,708
U.S. dollar fixed-rate promissory notes (1)	94,873	57,242	64,768
Cash collateral due to derivative counterparties	6,156	–	–
Structured note double-up coupon	5,471	–	–
	$ 9,568,666	$ 8,029,920	$ 8,810,407

(1) $95.0 million USD (2011 – $58.9 million USD; 2010 – $63.8 million USD)

Short-term debt by maturity date and yield

	March 31, 2012				
	Government of Canada		Capital markets		
($ thousands)	Carrying value	Yield	Carrying value	Yield	Total
From 0 – 3 months	$ 4,478,096	1.08%	$ 302,522	2.91%	$ 4,780,618
From 4 – 6 months	2,055,979	0.88%	–	–	2,055,979
From 7 – 9 months	1,618,695	0.96%	5,471	1.18%	1,624,166
From 10 – 12 months	1,070,402	0.90%	31,345	4.03%	1,101,747
Cash collateral due to derivative counterparties	–	–	6,156	1.00%	6,156
	$ 9,223,172		$ 345,494		$ 9,568,666

	March 31, 2011				
	Government of Canada		Capital markets		
($ thousands)	Carrying value	Yield	Carrying value	Yield	Total
From 0 – 3 months	$ 5,032,054	1.05%	$ 199,489	2.84%	$ 5,231,543
From 4 – 6 months	731,410	0.99%	34,848	4.56%	766,258
From 7 – 9 months	770,667	0.94%	–	–	770,667
From 10 – 12 months	1,075,266	0.92%	186,186	4.16%	1,261,452
	$ 7,609,397		$ 420,523		$ 8,029,920

	April 1, 2010				
	Government of Canada		Capital markets		
($ thousands)	Carrying value	Yield	Carrying value	Yield	Total
From 0 – 3 months	$ 6,551,436	0.30%	$ 136,773	2.19%	$ 6,688,209
From 4 – 6 months	600,065	0.26%	–	–	600,065
From 7 – 9 months	746,405	0.60%	160,703	3.50%	907,108
From 10 – 12 months	615,025	0.27%	–	–	615,025
	$ 8,512,931		$ 297,476		$ 8,810,407

The corporation has a demand operating line of credit, which provides overdraft protection in the amount of $30.0 million (2011 – $30.0 million; 2010 – $30.0 million). Indebtedness under this agreement is unsecured and this credit facility does not expire. Any draws made throughout the year on this facility are reversed the next day. As at March 31, 2012, there were no draws on this facility (2011 – nil; 2010 – nil).

14. *Borrowings (continued)*

Long-term debt

($ thousands)	March 31, 2012	March 31, 2011	April 1, 2010
Government of Canada debt			
Floating-rate borrowings	**$ 8,295,816**	$ 8,492,505	$ 5,561,716
Fixed-rate borrowings	**1,909,411**	1,557,383	1,919,638
	$ 10,205,227	$ 10,049,888	$ 7,481,354
Structured notes			
Index-linked notes	**$ 222**	$ 267	$ 276
Double-up coupon	**–**	5,861	6,179
Dual currency notes (1)	**–**	–	11,768
Reverse floating-rate note (2)	**–**	–	8,277
	$ 222	$ 6,128	$ 26,500
Retail and institutional fixed-rate notes	**567,280**	865,983	1,440,910
	$ 10,772,729	$ 10,921,999	$ 8,948,764

(1) ¥1.1 billion Japanese Yen
(2) ¥0.8 billion Japanese Yen

The redemption of structured notes is controllable by the corporation. At the inception of a structured note, derivative swap agreements are entered into concurrently to economically hedge the embedded interest rate and currency exposure. In practice, the corporation will only redeem a structured note if the swap counterparty exercises its right to terminate the related derivative swap agreement. These derivative contracts ensure that the corporation will receive proceeds from the swap to meet the requirements of servicing and settling the debt obligation. The corporation has, in substance, created floating-rate debt by issuing notes at fixed rates and entering into swap contracts whereby the corporation receives fixed-rate interest and pays floating-rate interest, and vice versa. In swapping out of the underlying note issue, the potential market risk has been converted to credit risk. Credit exposure on derivative financial instruments is further discussed in Note 24.

As at March 31, 2012, the amount the corporation is contractually required to pay on structured notes at maturity is $5.2 million, a $0.4-million difference from its carrying value. The fair value change in structured notes attributable to changes in the corporation's credit risk in the current year is $0.5 million and, cumulatively, measured from the later of April 1, 2007, or the initial recognition of the structured notes, is $0.7 million. The change in fair value attributable to changes in the corporation's credit risk has been calculated by using the Government of Canada Agency Curve as a proxy for the credit risk of the corporation. The potential effect of using reasonable possible alternative assumptions for valuing structured notes would not have a material effect on the corporation's financial position or earnings. To determine reasonably possible alternative assumptions, the corporation adjusted key unobservable model inputs. These adjustments included de-correlating interest rates and subjecting parameters to a large shift.

14. Borrowings (continued)

Long-term debt by maturity date and yield

	March 31, 2012				
	Government of Canada		Capital markets		
($ thousands)	Carrying value	Yield	Carrying value	Yield	Total
From 1 – 2 years	$ 3,485,947	1.20%	$ 152,361	4.37%	$ 3,638,308
From 2 – 3 years	2,786,372	0.99%	–	–	2,786,372
From 3 – 4 years	2,514,257	1.04%	108,038	4.37%	2,622,295
From 4 – 5 years	907,491	1.03%	–	–	907,491
Over 5 years	511,160	2.16%	307,103	4.37%	818,263
	$10,205,227		$ 567,502		$ 10,772,729

	March 31, 2011				
	Government of Canada		Capital markets		
($ thousands)	Carrying value	Yield	Carrying value	Yield	Total
From 1 – 2 years	$ 3,370,598	1.22%	$ 244,625	4.15%	$ 3,615,223
From 2 – 3 years	3,180,427	1.23%	152,273	4.37%	3,332,700
From 3 – 4 years	2,570,992	0.99%	–	–	2,570,992
From 4 – 5 years	700,936	1.39%	107,951	4.37%	808,887
Over 5 years	226,935	2.73%	367,262	4.35%	594,197
	$10,049,888		$ 872,111		$ 10,921,999

	April 1, 2010				
	Government of Canada		Capital markets		
($ thousands)	Carrying value	Yield	Carrying value	Yield	Total
From 1 – 2 years	$ 3,038,961	0.58%	$ 363,050	4.07%	$ 3,402,011
From 2 – 3 years	3,119,473	0.65%	243,467	3.74%	3,362,940
From 3 – 4 years	925,424	1.85%	152,061	4.29%	1,077,485
From 4 – 5 years	75,257	2.80%	–	–	75,257
Over 5 years	322,239	3.04%	708,832	4.26%	1,031,071
	$ 7,481,354		$ 1,467,410		$ 8,948,764

15. Post-employment benefits

Financial position of benefit plans

The corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at March 31 of each year.

The amounts recognized in the Consolidated Balance Sheet are as follows:

($ thousands)	Registered pension plan March 31, 2012	March 31, 2011	April 1, 2010
Present value of funded defined benefit obligations	$ **(474,091)**	$ (343,226)	$ (309,275)
Fair value of plan assets	**338,641**	315,593	270,942
Funded status	**(135,450)**	(27,633)	(38,333)
Change in liability arising from the impact of the minimum funding requirement on the asset ceiling test	–	–	(41,755)
Net liability for defined benefit obligations (1)	$ **(135,450)**	$ (27,633)	$ (80,088)

($ thousands)	Supplemental pension plans March 31, 2012	March 31, 2011	April 1, 2010
Present value of funded defined benefit obligations	$ **(41,391)**	$ (24,462)	$ (23,533)
Fair value of plan assets	**33,110**	33,834	25,116
Funded status	**(8,281)**	9,372	1,583
Present value of unfunded defined benefit obligations	**(9,546)**	(7,606)	(7,172)
Net (liability) asset for defined benefit obligations (1)	$ **(17,827)**	$ 1,766	$ (5,589)

($ thousands)	Other benefits March 31, 2012	March 31, 2011	April 1, 2010
Present value of unfunded defined benefit obligations	$ **(70,783)**	$ (51,036)	$ (43,512)
Net liability for defined benefit obligations (1)	$ **(70,783)**	$ (51,036)	$ (43,512)

(1) The total net liability for defined benefit obligations of all three plans is $224,060 (2011 – $86,275; 2010 – $130,772). This amount is recorded on the Consolidated Balance Sheet as retirement benefit liabilities. The total net asset for defined benefit obligations of all three plans is $nil (2011 – $9,372; 2010 – $1,583). This amount is recorded on the Consolidated Balance Sheet in other assets.

15. Post-employment benefits (continued)

Movements in the present value of the defined benefit obligation

($ thousands)	Registered pension plan March 31, 2012	Registered pension plan March 31, 2011	Supplemental pension plans March 31, 2012	Supplemental pension plans March 31, 2011	Other benefits March 31, 2012	Other benefits March 31, 2011
Defined benefit obligation, beginning of year	$ 343,226	$ 309,275	$ 32,068	$ 30,705	$ 51,036	$ 43,512
Current service cost	13,669	12,962	1,078	1,134	3,617	3,182
Interest cost	19,579	18,536	1,804	1,813	2,978	2,660
Contributions by employees	4,048	4,052	46	51	–	–
Benefits paid	(10,007)	(7,932)	(767)	(682)	(672)	(813)
Actuarial losses (gains)	103,576	6,333	16,708	(953)	13,824	2,495
Defined benefit obligation, end of year	$ 474,091	$ 343,226	$ 50,937	$ 32,068	$ 70,783	$ 51,036

Movements in the fair value of plan assets

($ thousands)	Registered pension plan March 31, 2012	Registered pension plan March 31, 2011	Supplemental pension plans March 31, 2012	Supplemental pension plans March 31, 2011	Other benefits March 31, 2012	Other benefits March 31, 2011
Fair value of plan assets, beginning of year	$ 315,593	$ 270,942	$ 33,834	$ 25,116	$ –	$ –
Expected return on plan assets	21,649	19,487	1,092	1,088	–	–
Actuarial (losses) gains	(9,006)	10,032	(1,380)	(218)	–	–
Contributions by corporation	16,364	19,012	46	8,243	672	813
Contributions by employees	4,048	4,052	46	51	–	–
Benefits paid	(10,007)	(7,932)	(528)	(446)	(672)	(813)
Fair value of plan assets, end of year	$ 338,641	$ 315,593	$ 33,110	$ 33,834	$ –	$ –

Defined benefit costs recognized in net income

($ thousands)	Registered pension plan March 31, 2012	Registered pension plan March 31, 2011	Supplemental pension plans March 31, 2012	Supplemental pension plans March 31, 2011	Other benefits March 31, 2012	Other benefits March 31, 2011
Current service cost (1)	$ 13,669	$ 12,962	$ 1,078	$ 1,134	$ 3,617	$ 3,182
Interest on obligation (2)	19,579	18,536	1,804	1,813	2,978	2,660
Expected return on plan assets (3)	(21,649)	(19,487)	(1,092)	(1,088)	–	–
	$ 11,599	$ 12,011	$ 1,790	$ 1,859	$ 6,595	$ 5,842

(1) Total current service cost of $18,364 (2011 – $17,278) is recorded in benefits expense.
(2) Total interest on obligation of $24,361 (2011 – $23,009) is recorded in benefits expense.
(3) Total expected return on plan assets of $22,741 (2011 – $20,575) is netted within benefits expense.

15. Post-employment benefits (continued)

Defined benefit costs recognized in other comprehensive income

($ thousands)	Registered pension plan March 31, 2012	Registered pension plan March 31, 2011	Supplemental pension plans March 31, 2012	Supplemental pension plans March 31, 2011	Other benefits March 31, 2012	Other benefits March 31, 2011
Net actuarial (losses) gains (1)	**$ (112,582)**	$ 3,699	**$ (18,088)**	$ 735	**$ (13,824)**	$ (2,495)
Change in liability arising from the impact of the minimum funding requirement on the asset ceiling (2)	**–**	41,755	**–**	–	**–**	–
	$ (112,582)	$ 45,454	**$ (18,088)**	$ 735	**$ (13,824)**	$ (2,495)

(1) Net actuarial losses of $144,494 (2011 – $1,939 gain) are recognized in other comprehensive income.
(2) This increase to OCI as at March 31, 2011, resulted from the decrease in the liability due to pension regulations, effective April 1, 2011, that allow plan sponsors with federally registered pension plans the option to use letters of credit in lieu of making solvency minimum funding payments for past service.

The cumulative actuarial losses recognized in OCI as at March 31, 2012, were $142.6 million (2011 – $1.9 million actuarial gain).

Actuarial (losses) gains are composed of the following:

($ thousands)	Registered pension plan March 31, 2012	Registered pension plan March 31, 2011	Supplemental pension plans March 31, 2012	Supplemental pension plans March 31, 2011	Other benefits March 31, 2012	Other benefits March 31, 2011
Experience adjustments on plan liabilities	**$ (2,973)**	$ 10,284	**$ (3,853)**	$ 2,439	**$ 26**	$ 81
Experience adjustments on plan assets	**(9,006)**	10,032	**(1,380)**	(218)	**–**	–
Changes in assumptions	**(100,603)**	(16,617)	**(12,855)**	(1,486)	**(13,850)**	(2,576)
	$ (112,582)	$ 3,699	**$ (18,088)**	$ 735	**$ (13,824)**	$ (2,495)

Plan assets

The percentages of plan assets by asset type based on market values at the most recent actuarial valuation are as follows:

	Registered pension plan March 31, 2012	Registered pension plan March 31, 2011	Registered pension plan April 1, 2010	Supplemental pension plans March 31, 2012	Supplemental pension plans March 31, 2011	Supplemental pension plans April 1, 2010
Equity securities	**60.0%**	66.0%	63.0%	**99.6%**	96.0%	95.0%
Debt securities	**34.5%**	32.0%	35.0%	**0.1%**	4.0%	5.0%
Real estate	**4.4%**	–	–	**–**	–	–
Cash	**1.1%**	2.0%	2.0%	**0.3%**	–	–
	100.0%	100.0%	100.0%	**100.0%**	100.0%	100.0%

The actual return on plan assets was $12.4 million (2011 – $30.4 million).

15. Post-employment benefits (continued)

Significant assumptions

The significant assumptions used are as follows (weighted-average):

	Registered pension benefits		Supplemental pension plans		Other benefits	
	March 31, 2012	March 31, 2011	**March 31, 2012**	March 31, 2011	**March 31, 2012**	March 31, 2011
Accrued benefit obligation						
Discount rate	**4.25%**	5.50%	**4.25%**	5.50%	**4.25%**	5.50%
Rate of compensation increase	**5.50%**	5.50%	**5.50%**	5.50%	**5.50%**	5.50%
Defined benefit costs						
Discount rate	**5.50%**	5.75%	**5.50%**	5.75%	**5.50%**	5.75%
Expected return on plan assets	**6.75%**	7.00%	**3.25%**	3.75%	**–**	–
Rate of compensation increase	**5.50%**	5.50%	**5.50%**	5.50%	**5.50%**	5.50%

Assumptions regarding future mortality are based on published statistics and mortality tables. As at March 31, 2012, the average life expectancy of an individual retiring at age 65 is 19 years for males and 22 years for females.

The overall expected return on plan assets for each of the registered and supplemental plans is based on the respective portfolios as a whole. The return is based exclusively on historical returns without adjustment.

Assumed health-care cost trend rates are as follows:

	2012	2011
Extended health-care and dental care cost escalation		
Initial rate	**9.00%**	9.00%
Ultimate rate	**5.00%**	5.00%
Year ultimate rate reached	**2020**	2020

15. Post-employment benefits (continued)

Sensitivity analysis

The impact of changing the key weighted-average economic assumptions used in measuring the pension and other benefit costs are as follows:

($ thousands)	Registered pension plan	Supplemental pension plans	Other benefits
1% decrease in expected long-term rate of return on assets			
Net benefit cost	$ 3,207	$ 336	$ –
1% decrease in discount rate			
Total of service and interest costs	4,047	274	1,250
Accrued benefit obligation	113,497	11,855	16,153
0.25% increase in rate of increase of future compensation			
Total of service and interest costs	428	148	31
Accrued benefit obligation	4,551	2,304	255
Assumed overall health-care cost trend rates on aggregate of service and interest cost components for period			
Impact of: 1% increase	–	–	1,579
1% decrease	–	–	(1,148)
Assumed overall health-care cost trend rates on accrued benefit obligation			
Impact of: 1% increase	–	–	12,875
1% decrease	–	–	(9,726)

Defined contribution plans

The cost of the defined contribution plans is recorded based on the contributions in the current year and is included in benefits expense. For the year ended March 31, 2012, the expense was $4.1 million (2011 – $3.8 million).

Total cash payments

Total cash payments for post-employment benefits, consisting of cash contributed by the corporation to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans and cash contributed to its defined contribution plan, were $21.8 million (2011 – $32.5 million).

Total cash payments for post-employment benefits for 2013, as described in the preceding paragraph, are anticipated to be approximately $31.3 million.

16. Other liabilities

($ thousands)	March 31, 2012	March 31, 2011	April 1, 2010
Reserve for insurance claims	7,734	6,970	4,412
Deferred revenues	2,926	2,212	2,201
Other	890	842	1,720
	$ 11,550	$ 10,024	$ 8,333

17. Net interest income

($ thousands)	March 31, 2012	March 31, 2011
Interest income		
Loans and receivables	$ 1,007,256	$ 929,733
Temporary investments designated as AFS	10,110	7,964
Transfer of net realized gains on derivatives designated as cash flow hedges from AOCI to net income	18,430	21,060
Hedging derivative financial assets and liabilities designated as cash flow hedges (net)	13,755	26,544
Venture capital investments designated at fair value through profit or loss	2,405	1,568
Finance leases	365	199
Operating leases	6,085	4,393
Foreign exchange gains (losses) on cash and loans and receivables	1,953	(2,979)
	1,060,359	988,482
Interest expense		
Short-term borrowings classified as other liabilities	48,931	31,265
Long-term borrowings classified as other liabilities	204,297	206,163
Borrowings designated at fair value through profit or loss	539	531
Derivative financial assets and liabilities classified as HFT (net)	(256)	(233)
Depreciation on equipment under operating leases	5,109	3,682
Transition Loan liabilities classified as other liabilities	2,183	–
Foreign exchange losses (gains) on cash and short-term borrowings classified as other liabilities (net)	2,295	(3,026)
	263,098	238,382
Net interest income	$ 797,261	$ 750,100

The total net fee income that was recognized immediately in net interest income arising from financial assets and liabilities not classified as held for trading was $3.8 million (2011 – $4.7 million). Interest income recognized from the unwinding of discounts on impaired financial assets was $6.7 million (2011 – $7.7 million).

18. Fair value adjustment

($ thousands)	March 31, 2012	March 31, 2011
Venture capital investments designated as fair value through profit or loss	$ 1,868	$ (1,156)
Long-term debt designated at fair value through profit or loss	431	(2,408)
Ineffectiveness of cash flow hedges	88	3,987
Guarantees	9	87
Derivative financial assets and liabilities classified as HFT	(399)	2,936
	$ 1,997	$ 3,446

19. Fair value of financial instruments

Financial instruments carried at fair value

The corporation follows a three-level fair value hierarchy to categorize the inputs used to measure fair value. Level 1 is based on quoted prices in active markets, Level 2 incorporates models using inputs other than quoted prices and Level 3 incorporates models using inputs that are not based on observable market data. Details of the valuation methodologies applied and assumptions used in determining fair value are provided in Note 2.

Valuation hierarchy

The following table categorizes the level of inputs used in the valuation of financial instruments carried at fair value:

($ thousands)	March 31, 2012 Level 1	Level 2	Level 3	Total
Assets				
Temporary investments	$ –	$ 83,813	$ –	$ 83,813
Derivative financial assets	–	67,408	490	67,898
Venture capital investments	2,694	–	50,833	53,527
	$ 2,694	$ 151,221	$ 51,323	$ 205,238
Liabilities				
Derivative financial liabilities	$ –	$ 84	$ –	$ 84
Structured notes	–	–	5,693	5,693
	$ –	$ 84	$ 5,693	$ 5,777

($ thousands)	March 31, 2011 Level 1	Level 2	Level 3	Total
Assets				
Temporary investments	$ –	$ 284,162	$ –	$ 284,162
Derivative financial assets	–	46,483	924	47,407
Venture capital investments	1,878	–	46,560	48,438
	$ 1,878	$ 330,645	$ 47,484	$ 380,007
Liabilities				
Derivative financial liabilities	$ –	$ 4,724	$ –	$ 4,724
Structured notes	–	–	6,128	6,128
	$ –	$ 4,724	$ 6,128	$ 10,852

($ thousands)	April 1, 2010 Level 1	Level 2	Level 3	Total
Assets				
Temporary investments	$ –	$ 199,818	$ –	$ 199,818
Derivative financial assets	–	65,585	1,360	66,945
Venture capital investments	2,104	–	49,910	52,014
	$ 2,104	$ 265,403	$ 51,270	$ 318,777
Liabilities				
Derivative financial liabilities	$ –	$ 4,591	$ 2,252	$ 6,843
Structured notes	–	–	26,500	26,500
	$ –	$ 4,591	$ 28,752	$ 33,343

19. Fair value of financial instruments (continued)

Level 3 financial instruments

The following table summarizes the changes in the Level 3 valuation hierarchy that occurred during the year:

	March 31, 2012			
($ thousands)	Derivative financial assets and liabilities	Venture capital investments	Structured notes	Total
Balance, beginning of year	$ 924	$ 46,560	$ (6,128)	$ 41,356
Net (losses) gains recognized in fair value adjustment	(433)	1,719	431	1,717
Change in accrued interest	(1)	196	4	199
Acquisitions	–	9,142	–	9,142
Repayments	–	(6,784)	–	(6,784)
Balance, end of year	$ 490	$ 50,833	$ (5,693)	$ 45,630

	March 31, 2011			
($ thousands)	Derivative financial assets and liabilities	Venture capital investments	Structured notes	Total
Balance, beginning of year	$ (892)	$ 49,910	$ (26,500)	$ 22,518
Net gains (losses) recognized in fair value adjustment	1,897	(932)	(2,408)	(1,443)
Change in accrued interest	(81)	(273)	76	(278)
Acquisitions	–	10,936	–	10,936
Repayments	–	(13,081)	22,704	9,623
Balance, end of year	$ 924	$ 46,560	$ (6,128)	$ 41,356

Net unrealized gains and losses relating to instruments still held at the reporting date recognized in the fair value adjustment are $1.7 million gain (2011 – $2.2 million loss).

19. Fair value of financial instruments (continued)

Financial instruments not carried at fair value

The estimated fair value of the corporation's financial instruments that do not approximate carrying values in the financial statements, using the methods and assumptions described below, are as follows:

	March 31, 2012		March 31, 2011		April 1, 2010	
($ thousands)	Carrying value	Estimated fair value	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Assets						
Loans receivable	**$ 22,580,309**	**$ 22,862,225**	$ 20,745,891	$ 20,927,526	$ 19,157,211	$ 19,355,521
Finance leases receivable	**9,541**	**9,678**	4,912	4,942	2,827	2,852
Liabilities						
Long-term debt excluding structured notes	**10,772,507**	**10,895,906**	10,915,871	10,998,293	8,922,264	9,021,227

The estimated fair value for the performing fixed-rate loans receivable is calculated by discounting the expected future cash flows at year-end market interest rates for equivalent terms to maturity. The estimated fair value for the performing variable-rate loans receivable is assumed to equal carrying value. The collective allowance for credit losses related to loans receivable is subtracted from the estimated fair value of the performing loans receivable. The estimated fair value of the impaired loans receivable is equal to their net realizable value, which is calculated by subtracting the individual allowance for credit losses from the book value of the impaired loans receivable.

The estimated fair value for the finance leases receivable is calculated by discounting the expected future cash flows at year-end market interest rates for equivalent terms to maturity. The collective allowance for credit losses related to finance leases is subtracted from the estimated fair value of the finance leases receivable.

The estimated fair value for long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity, or by using quoted market prices where available.

For all other financial instruments carried at amortized cost, the carrying value is assumed to approximate fair value due to the relatively short period to maturity of these instruments. This applies to the corporation's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, other assets, short-term debt excluding structured notes, Transition Loan liability and other liabilities excluding the reserve for insurance claims.

20. Operating lease arrangements

Operating leases as a lessor

Operating leases consist of agricultural equipment leased to customers under non-cancellable operating lease agreements. The initial lease terms of operating leases range from two to five years.

The future minimum lease payments are receivable as follows:

($ thousands)	March 31, 2012	March 31, 2011
Amounts due		
Less than one year	$ 6,080	$ 4,164
Between one and five years	13,007	8,173
	$ 19,087	$ 12,337

Operating leases as a lessee

The corporation leases office space under operating leases. The lease terms are typically five to 10 years, with an option to renew the lease after that date.

The future minimum lease payments under non-cancellable lease contracts are payable as follows:

($ thousands)	March 31, 2012	March 31, 2011
Amounts due		
Less than one year	$ 22,259	$ 16,111
Between one and five years	61,514	38,250
More than five years	62,494	5,837
	$ 146,267	$ 60,198

Operating lease payments in the amount of $15.3 million (2011 – $13.7 million) have been included within facilities, software and equipment expenses.

21. Commitments, guarantees and contingent liabilities

Loan and lease commitments

As at March 31, 2012, loans approved but undisbursed amounted to $3,352.9 million (2011 – $2,821.8 million). These loans were approved at an average interest rate of 4.13% (2011 – 4.25%) and do not form part of the loans receivable balance until disbursed. As many of these loan approvals will expire or terminate without being drawn upon, the contract amounts do not necessarily represent future cash requirements. As at March 31, 2012, finance leases approved but undisbursed amounted to $2.1 million (2011 – $2.0 million) and operating leases approved but undisbursed amounted to $2.3 million (2011 – $0.8 million). These leases do not form part of the finance leases receivable or equipment under operating leases balances until disbursed. These commitments do not generate liquidity risk to the corporation because it has sufficient funds available from the Government of Canada to meet its future cash requirements. The Government of Canada makes short-term and long-term funding available to the corporation through the Crown Borrowing Program.

Operating commitments

Future minimum payments on contracts for technology services are payable as follows:

($ thousands)	March 31, 2012	March 31, 2011
Amounts due		
Less than one year	$ 9,451	$ 3,297
Between one and five years	26,172	665
	$ 35,623	$ 3,962

Capital commitments

Capital expenditure contracted for computer software at the end of the fiscal year but not yet incurred is $20.4 million (2011 – $4.2 million).

Guarantees

In the normal course of its business, the corporation issues guarantees in the form of letters of credit that represent an obligation to make payments to third parties on behalf of its customers if customers are unable to make the required payments or meet other contractual obligations. The maximum amount potentially payable as at March 31, 2012, is $1.6 million (2011 – $2.5 million). In the event of a call on these letters of credit, the corporation has recourse in the form of security against its customers for amounts to be paid to the third party. Existing items will expire within three years, usually without being drawn upon. As at March 31, 2012, an amount of $nil (2011 – $nil) was recorded for these letters of credit.

Contingent liabilities

Various legal proceedings arising from the normal course of business are pending against the corporation. No amount has been included in the consolidated financial statements as at March 31, 2012, for these contingent liabilities as management does not expect the outcome to have a significant effect on the consolidated financial statements.

In the normal course of operations, the corporation enters into agreements that provide general indemnification. These indemnifications typically occur in service contracts and strategic alliance agreements, and, in certain circumstances, may require that the corporation compensates the counterparty to the agreement for various costs resulting from breaches of representations or obligations. The corporation also indemnifies directors, officers and employees, to the extent permitted by law and the corporation's governing legislation, against certain claims that may be made against them as a result of their being directors, officers or employees. The terms of these indemnifications vary, therefore the corporation is unable to determine a reasonable estimate of the maximum potential amount the corporation could be required to pay to counterparties. Historically, the corporation has not made any payments under such indemnifications and contingencies. No amount has been included in the consolidated financial statements as at March 31, 2012, for these indemnifications and contingencies.

22. Related party transactions

The corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations.

The corporation is related to Avrio Fund I and Avrio Fund II. Avrio Fund I and Avrio Fund II are limited partnerships for which the corporation holds 67% (2011 – 67%; 2010 – 67%) and 99% (2011 – nil%; 2010 – nil%), respectively, of the partnership units. Avrio Fund I and Avrio Fund II are subsidiaries of the corporation. All transactions between the corporation and its subsidiaries have been eliminated on consolidation, and as such are not disclosed as related party transactions.

Other related parties of the corporation are key management personnel, close family members of key management personnel and entities that are controlled, significantly influenced by, or for which significant voting power is held by key management personnel or their close family members, and post-employment benefit plans for the benefit of the corporation's employees.

Transactions with these entities were entered into in the normal course of business and are measured according to the relevant IFRS standard applicable to the transaction.

Transactions with the Government of Canada

The Government of Canada guarantees the borrowings of the corporation.

The corporation enters into short- and long-term borrowings with the Government of Canada through the Crown Borrowing Program. As at March 31, 2012, the balances outstanding with the Government of Canada were $9,223.2 million in short-term debt (2011 – $7,609.4 million; 2010 – $8,512.9 million) and $10,205.2 million in long-term debt (2011 – $10,049.9 million; 2010 – $7,481.4 million). For the year ended March 31, 2012, $198.3 million (2011 – $155.8 million) was recorded in interest expense relating to these borrowings.

The corporation receives government assistance to share the credit losses on certain loans with the Government of Canada. The government assistance is recorded as either an increase or decrease to the provision for credit losses. For the year ended March 31, 2012, the increase (decrease) recorded to the provision for credit losses was $0.9 million (2011 – $(0.6) million). The amount estimated to be returned to the Government of Canada is included in the long-term debt balances above.

The corporation pays a dividend to the Government of Canada on an annual basis, as detailed in Note 23.

22. Related party transactions (continued)

Key management personnel compensation

Key management personnel includes directors and members of the Executive Management Team. Close family members of key management personnel are considered related parties and have been included in the amounts disclosed below.

The compensation paid during the year to key management personnel for services rendered is shown below:

($ thousands)	March 31, 2012	March 31, 2011
Salaries and other short-term employee benefits	$ 3,390	$ 3,802
Post-employment benefits	704	727
Board retainer and per diems	213	220
Total	$ 4,307	$ 4,749

Transactions with key management personnel

All transactions with key management personnel are with directors and entities related to those directors. The terms and conditions of the transactions with key management personnel were no more favourable than those available on similar transactions with other customers.

	2012		2011		2010
($ thousands)	Maximum balance during the year	Balance as at March 31	Maximum balance during the year	Balance as at March 31	Balance as at April 1
Loans	$ 6,205	$ 5,446	$ 7,668	$ 6,824	$ 7,217
Leases	36	24	42	36	–

The weighted average interest rate on the loans to key management personnel outstanding as at March 31, 2012, was 6% (2011 – 6%; 2010 – 6%).

The loans and leases to key management personnel are secured under similar conditions as transactions with other customers and the key management personnel entering into these transactions were subject to the same credit assessment process applied to all customers. No individual allowance has been established in 2012 for the loans or leases made to key management personnel (2011 – $nil).

Undrawn credit commitments with key management personnel totalled $5.2 million as at March 31, 2012 (2011 – $0.1 million).

The corporation has received $nil in insurance premiums during the year ended March 31, 2012 (2011 – $6.6 thousand) from key management personnel to insure a total amount of $nil as at March 31, 2012 (2011 – $0.9 million).

Transactions with post-employment benefit plans

During the year, $52.6 thousand was received from the defined benefit plan (2011 – $104.8 thousand) for administrative services and was recorded in benefits expense.

23. Capital management

The corporation's objectives when managing capital are to:

- generate a sufficient rate of return from operations to remain financially self-sustaining and to fund growth and strategic initiatives
- have the capability to withstand market fluctuations intrinsic to the agriculture industry while continuing to support its customers through all economic cycles
- comply with its external covenant imposed by the Farm Credit Canada Act that restricts the total direct and contingent liabilities of the corporation to 12 times its equity, or up to 15 times with prior approval

There has been no change to the corporation's objectives, policies or procedures for managing capital from the prior year.

The capital of the corporation consists of retained earnings, AOCI, contributed surplus, allowance for credit losses and non-controlling interest in special purpose entity. One of the measures that the corporation reviews is the percentage of assets not requiring funding through borrowings. The corporation's level of capitalization and the percentage of gross assets not requiring funding through borrowings are as follows:

($ thousands)	March 31, 2012	March 31, 2011	April 1, 2010
Retained earnings	**$ 2,340,813**	$ 1,938,466	$ 1,452,328
Accumulated other comprehensive income	**203,477**	181,804	203,603
Contributed surplus	**547,725**	547,725	547,725
Allowance for credit losses (1)	**622,094**	655,462	656,518
Non-controlling interest in special purpose entity	**16,158**	13,376	9,461
Total capitalization	**$ 3,730,267**	$ 3,336,833	$ 2,869,635
Gross assets	**$ 24,451,139**	$ 22,526,174	$ 20,907,800
Capitalization as a percentage of gross assets	**15.26%**	14.81%	13.73%

(1) The allowance for credit losses has been restated as at March 31, 2011 and April 1, 2010.

Limits on borrowing

As at March 31, 2012, the corporation's total direct and contingent liabilities were 7.17 times the shareholder's equity, excluding AOCI (2011 – 7.72 times the shareholder's equity, excluding AOCI; 2010 – 9.02 times the shareholder's equity, excluding AOCI), which was within the limit established by the Farm Credit Canada Act.

Contributed surplus

Contributed surplus of the corporation consists of capital contributions made by the Government of Canada net of the March 31, 1998 reallocation of $660.6 million to eliminate the corporation's accumulated deficit.

As at March 31, 2012, capital payments received from the Government of Canada amounted to $1,208.3 million (2011 – $1,208.3 million; 2010 – $1,208.3 million). The statutory limit for that same period was $1,250.0 million (2011 – $1,250.0 million; 2010 – $1,250.0 million).

Dividend

On October 5, 2011, the Board declared a dividend based on the results of the year ended March 31, 2011, in the amount of $17.5 million (2011 – $18.5 million based on the year ended March 31, 2010; 2010 – $18.6 million based on the year ended March 31, 2009) to the corporation's shareholder, the Government of Canada, which was paid on March 26, 2012.

24. Risk management

Risk governance

The corporation has established a governance framework that includes a number of policies and internal committees to guide corporate decision-making. The Board provides oversight for this internal corporate governance framework. The Board's committees are responsible for developing and monitoring aspects of the corporation's overall risk management policies, processes and practices. The internal committees report regularly to the Board's Audit Committee.

The Audit Committee assists the Board in fulfilling its responsibilities by ensuring that management has identified key risks and has put in place policies, control systems and practices to manage these risks. The Audit Committee receives semi-annual reports from management outlining major risk areas and corresponding risk management measures implemented to provide assurance that the corporation is effectively managing risk.

Financial risk management

The corporation has identified the major categories of financial risk to which it is exposed as credit risk and market risk.

a) Credit risk

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet its financial obligations to the corporation. Credit risk on loans is the most significant risk that the corporation faces.

Management of credit risk

The Board has overall responsibility for the management of credit risk and relies on a number of divisions and committees to effectively manage credit risk that impacts the corporation:

- Portfolio and Credit Risk conducts industry, economic and portfolio analysis and reports to the various risk committees, including the Audit Committee. A number of areas within this division are involved in managing credit risk for the corporation. They include:
  - Portfolio Analysis and Modelling is responsible for the management, design and development of lending and credit risk-related models, lending scorecards and tools, and makes recommendations to the Asset Liability Committee (ALCO) to ensure that these models, scorecards and tools appropriately balance risk mitigation, growth and profitability.
  - Credit Policy and Process Management is responsible for the management of the corporation's credit policies and makes recommendations to the Credit Policy Committee to ensure that there is an appropriate balance between risk mitigation, profitability and growth. It also reviews, enhances and clarifies credit policies and communicates policy changes to employees. Credit Policy and Process Management provides ongoing interpretation of policy in relation to general and specific lending situations.
  - Credit Risk manages risk for larger loans as well as loans above established risk thresholds. It is responsible for the credit-related delegation of authorities, credit education, coaching and credit authorization. Special Credit is a function within Credit Risk that manages and resolves higher-risk accounts experiencing challenges through intensive management of accounts, arrears collection and recovery actions.
  - Corporate Credit is responsible for credit education, coaching and credit authorization for larger loan applications, including Credit Committee recommendations.
  - Valuation researches land sales, maintains benchmark data on land values and appraises the value of the corporation's security with particular emphasis on specialized enterprises and agribusinesses.

24. Risk management (continued)

- Operations is delegated authorities over lending and is responsible for managing credit risk on loans in its portfolio. Authority is granted on the basis of credit training and demonstrated competence, and credit decisions are made at an authority level appropriate to the size and risk of each loan. The division monitors customer and loan performance throughout the life of the loan through ongoing account management as well as the account review process.
- Treasury is responsible for managing counterparty credit risk related to derivative and investment activities. The division reviews counterparty credit rating actions and financial performance.

The following internal committees are involved in the management of credit risk at the corporation:

- ALCO directs the asset/liability management function, including the establishment and maintenance of portfolio risk management policies and procedures, loan pricing direction, integration with corporate strategies and achievement of portfolio return targets.
- Credit Policy Committee oversees the development of lending policies and ensures that they reflect the corporation's credit risk tolerance, industry best practices and compliance with federal, provincial and regional laws and regulations.
- Credit Committee reviews and makes lending decisions on loan applications in excess of the prescribed limits.
- Venture Capital Investment Committee adjudicates investment recommendations and reviews the performance of venture capital investments held directly by the corporation.

Measurement of credit risk

Portfolio and Credit Risk assesses credit risk at the aggregate level, providing risk policies and assessment tools and models that quantify credit risk and allowance for credit losses. The division also monitors the agriculture and agri-food operating environments to ensure that the corporation's lending policies, activities and prices are appropriate and relevant.

Policies, processes, systems and strategies are used to manage the credit risk of the corporation's portfolio. Each year, Portfolio and Credit Risk presents a comprehensive portfolio vision that summarizes many of these tools, models and strategies to the Board for approval. Numeric targets associated with many of these tools are set annually to assist in achieving the portfolio vision.

Significant research, modelling, validation and interpretation are used to determine the targets for each tool as follows:

Economic capital

The corporation monitors available capital less credit economic capital requirements. Economic capital models are widely used by financial institutions to measure loan portfolio risk and are considered best practice by the International Association of Credit Portfolio Managers. The main benefits of an economic capital model are to:

- measure transaction, concentration and correlation risk
- stress test the loan portfolio to estimate losses with a certain level of probability
- measure trends over time
- allow for risk-adjusted comparisons of geographic areas and business lines

Portfolio diversification plan

The portfolio diversification plan outlines the desired range for portfolio composition in five years, including diversification across enterprises, geographical areas and business lines. The desired range is evaluated against other realistically achievable scenarios considering growth, profit, risk and market share impacts.

In addition, each year the portfolio vision also establishes customer exposure limits and approval authorities.

24. Risk management (continued)

Risk scoring and pricing system

The risk scoring and pricing system (RSPS) is used to rank risk for loans in the corporation's portfolio. Risk ranking is based on customer, loan and enterprise characteristics, and generates scores ranging from 400 to 999 points. Each score translates into a probability of default. The higher the score, the lower the probability of default. RSPS is also used to price loans.

RSPS scores are based on inputs that are categorized under four main themes:

- customer credit rating and historical payment performance
- customer financial ratios
- customer business experience
- customer primary enterprise

RSPS weights each characteristic differently to arrive at the final RSPS score. These weightings are based on the corporation's historical experience and are set with the objective to maximize the system's ability to predict probability of default.

The target risk score for the corporation's portfolio for new lending is 770. The portfolio's current risk score for new lending is 804 (2011 – 803) and the portfolio's overall risk score is 808 (2011 – 803).

Loan loss model

The loan loss model estimates the losses within the portfolio due to credit risk. There are two components to the loan loss model: individual and collective. The individual loan losses are determined for non-performing loans when, in management's opinion, there has been a deterioration of credit quality to the extent that the corporation no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, individual loan losses are determined for loans that have met both of the following criteria:

- greater than $500 in arrears for 90 days or more
- security insufficient to fully recover amounts outstanding

Collective loan losses are calculated losses on loans within the portfolio that have met at least one of three indicators of impairment:

- arrears of $500 or greater but not more than 90 days
- an adjustment to the terms of the loan in the past year
- a drop in the RSPS risk score of 15 or more points in the past year

The collective allowance is also based on those losses that have been incurred but have not yet exhibited evidence of the loss. Based on historical experience, there is an emergence period of when impairment occurs to when it becomes evident in the portfolio. From the emergence period, migration rates are used to determine incurred losses within the portfolio that are not yet evident. For all components of the loss model, the model considers the security position to estimate the appropriate amount of loss allowance.

On a monthly basis, ALCO is provided with a report that illustrates various measures of the loan portfolio's credit risk on an overall basis, by industry enterprise and by business line. Macro measures that demonstrate the health of the portfolio are as follows:

	March 31, 2012	March 31, 2011
Weighted average loan-to-security ratio for secured portfolio	**57.0%**	57.8%
Unsecured portfolio as a percentage of total owing	**2.3%**	2.3%
Arrears as a percentage of total owing	**2.1%**	2.1%

24. Risk management (continued)

Collateral

The corporation mitigates its credit risk by employing policies and practices for collateral requirements. Credit policy establishes collateral guidelines and standards. The corporation monitors the portfolio by reviewing the loan-to-security ratio, both on an overall portfolio basis and by enterprise. Upon initial recognition of a loan, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets at intervals prescribed by policy. The form of collateral obtained is generally real estate, quotas or equipment, depending on the purpose of the loan.

Loan commitments

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk, the corporation is potentially exposed to loss in an amount equal to the total unused commitments. See Note 21 for further details regarding the corporation's loan commitments.

Maximum exposure to credit risk before collateral held or other credit enhancements

($ thousands)	March 31, 2012	March 31, 2011	April 1, 2010
On-balance sheet			
Temporary investments	**$ 83,813**	$ 284,162	$ 199,818
Accounts receivable	**16,356**	12,786	32,818
Derivative financial assets	**67,898**	47,407	66,945
Loans receivable	**22,580,309**	20,745,891	19,157,211
Finance leases receivable	**9,541**	4,912	2,827
Venture capital investments	**53,527**	58,024	59,987
Other assets	**4,028**	3,651	3,226
	22,815,472	21,156,833	19,522,832
Off-balance sheet			
Financial guarantees	**1,580**	2,513	3,703
Loan and lease commitments	**3,357,337**	2,824,623	2,720,946
	3,358,917	2,827,136	2,724,649
Total maximum exposure to credit risk	**$ 26,174,389**	$ 23,983,969	$ 22,247,481

The preceding table represents a worst-case scenario of credit risk exposure to the corporation at the end of the year, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out are based on net carrying values as reported in the balance sheet. For off-balance sheet items, the exposure is based upon the maximum amount that the corporation would have to pay if the item was called upon.

24. Risk management (continued)

Loans receivable

Loans receivable in arrears but not impaired

A loan is considered to be in arrears when a customer has not made a payment by the contractual due date and the amount owing is greater than $500. Loans less than 90 days in arrears are not considered impaired, unless other information is available to the contrary. As well, loans in arrears are not considered impaired if there is adequate security and collection efforts are reasonably expected to result in full repayment. The longer that the customer is in arrears and interest continues to accrue, the greater the risk that the recoverable amount from the security value is less than the carrying value of the loan. Gross amounts of loans that were in arrears but not impaired were as follows:

($ thousands)	March 31, 2012	March 31, 2011 Restated
In arrears but not impaired		
Up to 30 days	$ **58,744**	$ 75,544
31 – 60 days	**63,978**	100,430
61 – 89 days	**25,667**	61,843
90 days or more	**110,290**	90,375
	$ **258,679**	$ 328,192

Loans receivable neither in arrears nor impaired

The credit quality of loans that were neither in arrears nor impaired can be assessed by reference to the corporation's RSPS scores. Total owing for each RSPS score bucket as a percentage of total owing that are neither in arrears nor impaired is as follows:

	March 31, 2012	March 31, 2011
RSPS score		
400-650	**0.6%**	1.1%
651-769	**16.1%**	18.7%
770-850	**63.8%**	61.6%
851-999	**19.5%**	18.6%
	100.0%	100.0%

The majority of the RSPS scores are updated on a monthly basis. For certain types of loans different approval and credit management processes are used and these represent approximately 2% of the corporation's total portfolio.

Real estate property acquired

During the year, the corporation acquired real estate property from customers in the settlement of loan commitments with a carrying value of $2.1 million (2011 – $2.2 million; 2010 – $2.0 million). Real estate property acquired is sold as soon as practicable with the proceeds used to reduce the outstanding customer loan balance.

Counterparty credit risk – derivatives and temporary investments

Credit risk arises from the potential for a counterparty to default on its contractual obligation to the corporation. To mitigate this risk, the corporation complies with the guidelines issued by the Minister of Finance by entering into derivatives with counterparties of high credit quality only, as determined by the published ratings of external credit rating agencies. Counterparty credit risk is managed via the corporation's Board-approved counterparty credit risk guidelines, which specify the maximum exposure that the corporation will accept for each level of credit rating.

24. Risk management (continued)

In the normal course of business, the corporation receives collateral on certain transactions to reduce its exposure to counterparty credit risk. The corporation is normally permitted to sell, dispose, invest or re-pledge the collateral it receives under terms that are common and customary to standard derivative activities.

The counterparty derivative obligation may arise when market-related currency and interest factors change resulting in unrealized gains to the corporation. These unrealized gains result in positive fair values for these derivative instruments. The corporation is not exposed to credit risk for the full notional amount of the derivative contracts, but only to the potential replacement cost if the counterparty defaults. Furthermore, standard credit mitigation via master netting agreements provided in the International Swap and Derivatives Association (ISDA) documentation provide for the simultaneous closeout and netting of positions with a counterparty in the event of default. Credit Support Annex (CSA) documentation is also in place with most of the corporation's counterparties. These agreements are addendums to existing ISDA documentation, and further specify the conditions for providing the corporation with collateral in the event that the counterparty credit exposure exceeds an agreed threshold. For derivative transactions where a CSA is in place, the counterparty must have a minimum long-term credit rating of A- from two or more external credit rating agencies (Standard & Poor's, Moody's or DBRS). See Note 5 and Note 14 for the quantification of counterparty credit risk.

ALCO and the Board have established an investment policy that sets minimum credit ratings for temporary investments and limits the size and composition of the total investment portfolio. For temporary investment activity with term to maturity equal to or less than one year, counterparties must have a minimum short-term credit rating of A1+/R1-low/P-1 from two or more external credit rating agencies. The actual credit ratings will determine the maximum face amount of investments per counterparty.

The corporation has controls and policies in place to protect against and minimize loss due to counterparty default. The Treasury division reviews credit ratings and counterparty financial performance regularly and recommends policy changes to ALCO and the Board.

Venture capital debt investments

The corporation is exposed to credit risk through its venture capital debt investments. The corporation manages credit risk through thoughtful planning, strict investment criteria, significant due diligence of investment opportunities and by conducting activities in accordance with investment policies. The Investment Manager monitors and reports on the financial condition of investee companies regularly.

b) Market risk

Market risk is the potential for financial loss to the corporation as a result of adverse changes in underlying market factors, such as interest rates and foreign exchange rates associated with investments, and the corporation's exposure to liquidity risk.

The corporation has market risk policies and limits to ensure that exposures to interest rate, foreign exchange risks and liquidity risks are identified, measured, managed and reported on a timely basis. Market risk policies are regularly reviewed by ALCO and are approved by the Board. The corporation's policies and processes are based on industry best practices and the Minister of Finance Financial Risk Management Guidelines for Crown Corporations. The Treasury division is responsible for implementing market risk management directives and reports regularly to ALCO and the Board on its activities and asset/liability positions.

24. Risk management (continued)

Interest rate risk

Interest rate risk is the risk that a change in interest rate adversely affects the corporation's net interest income and fair value measurements. Interest rate risk arises from interest rate mismatches between assets and liabilities and embedded options. Interest rate mismatches occur because of different maturity and re-pricing dates, residual assets funded by equity and different interest rate benchmarks for some assets and liabilities. Embedded options exist on fixed-rate loans that have principal deferral options, prepayment features and interest rate guarantees on loan commitments.

Exposure to interest rate risk is monitored primarily through an asset/liability model. Various scenarios are produced at least monthly to analyze the sensitivity of net interest income and fair values to a change in interest rates and balance sheet assumptions. The asset/liability model is back-tested and validated to ensure that the logic and assumptions used in the model are reasonable when compared to actual results.

Interest rate risk management is governed by policy, which has defined limits based on the projected impact of a 2.0% change in interest rates. The defined limit for variability of net interest income is that for the next 12-month period net interest income should not decline by more than 10.0%. The second defined limit is that the market value of portfolio equity (MVPE) should not decline by more than 10.0% of total equity (excluding accumulated other comprehensive income) for a 2.0% immediate and sustained change in the level and term structure of interest rates. Based on the corporation's financial position as at March 31, 2012, assuming an immediate and sustained 2.0% change in interest rates occurs across all maturities and curves, net interest income and the MVPE would be affected over the next 12 months as follows:

	2012 Impact of		2011 Impact of	
($ thousands)	2% increase	0.85% decrease (1)	2% increase	0.85% decrease (1)
Projected net interest income variability	$ (3,599)	$ 1,054	$ 5,919	$ (2,674)
Limit	82,073	(82,073)	78,922	(78,922)
MVPE variability	(224,065)	91,441	(188,100)	80,600
Limit	(303,303)	303,303	(244,250)	244,250

(1) The lowest rate on the yield curves used in the model was 0.85% (2011 – 0.85%) to avoid using negative rates.

The corporation has a third defined limit that addresses its exposure to commitment risk. Commitment risk is the risk that interest rates rise after the corporation has committed to a lower interest rate to the customer. The policy states that the decline in the fair value of the interest guarantees on new loans and renewals cannot exceed 0.5% of total equity (excluding accumulated other comprehensive income) for a 0.5% increase in rates. The net decrease in the fair value of undisbursed loans if there was a 0.5% rate increase was $4.2 million as at March 31, 2012 (2011 – $2.5 million), which was within the policy limit of $15.2 million (2011 – $10.1 million).

24. Risk management (continued)

The following table summarizes the corporation's interest rate risk based on the gap between the carrying value of assets, and liabilities and equity, grouped by the earlier of contractual re-pricing or maturity dates and interest rate sensitivity. In the normal course of business, loan customers frequently prepay their loans in part or in full before the contractual maturity date.

($ thousands)	Immediately rate-sensitive	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest-sensitive	Total
Assets							
Cash and cash equivalents	$ –	$ 866,524	$ –	$ –	$ –	$ 37,693	$ 904,217
Yield	–	1.03%	–	–	–	–	
Temporary investments	–	83,713	–	–	–	99	83,812
Yield (1)	–	1.09%	–	–	–	–	
Derivative financial assets (3)	–	–	–	–	–	67,898	67,898
Loans receivable	14,608,728	850,025	1,523,119	5,163,982	763,275	(328,820)	22,580,309
Yield (1)	3.92%	5.86%	5.36%	4.91%	5.51%	–	
Finance leases receivable	–	876	1,802	6,929	–	(67)	9,541
Yield (1)	–	5.60%	5.60%	5.60%	–	–	
Venture capital investments	2,371	–	1,956	8,814	–	40,386	53,527
Yield (1)	12.00%	–	9.12%	12.68%	–	–	
Other	–	–	–	–	–	129,739	129,739
Total assets	$ 14,611,099	$ 1,801,138	$ 1,526,877	$ 5,179,725	$ 763,275	$ (53,072)	$ 23,829,043
Liabilities and equity							
Non-structured borrowings	$ –	$ 17,731,848	$ 175,185	$ 1,645,736	$ 737,065	$ 46,017	$ 20,335,851
Yield (1)	–	0.96%	2.42%	2.60%	3.17%	–	
Structured borrowings	–	–	5,000	186	–	358	5,544
Yield (1)	–	–	–	6.00%	–	–	
Total borrowings	–	17,731,848	180,185	1,645,922	737,065	46,375	20,341,395
Derivative financial liabilities (2)(3)	–	334,304	(1,635)	(94,675)	(237,994)	84	84
Yield (1)	–	1.04%	(11.45)%	4.27%	4.54%	–	
Other	–	–	–	–	–	395,548	395,548
Shareholder's equity	–	–	–	–	–	3,092,016	3,092,016
Total liabilities and equity	$ –	$ 18,066,151	$ 178,550	$ 1,551,247	$ 499,071	$ 3,534,023	$ 23,829,043
Total gap 2012	$ 14,611,099	$(16,265,013)	$ 1,348,327	$ 3,628,478	$ 264,204	$ (3,587,095)	$ –
Total cumulative gap 2012	$ 14,611,099	$ (1,653,914)	$ (305,587)	$ 3,322,890	$ 3,587,095	$ –	$ –
Total gap 2011	$ 14,381,551	$(15,750,606)	$ 1,267,592	$ 2,624,612	$ 533,576	$ 3,056,725	$ –
Total cumulative gap 2011	$ 14,381,551	$ (1,369,055)	$ (101,463)	$ 2,523,149	$ 3,056,725	$ –	$ –
Total gap 2010	$ 12,910,440	$(13,742,619)	$ 905,970	$ 2,115,636	$ 480,209	$ (2,669,636)	$ –
Total cumulative gap 2010	$ 12,910,440	$ (832,179)	$ 73,791	$ 2,189,427	$ 2,669,636	$ –	$ –

(1) Represents the weighted-average effective yield based on the earlier of contractual re-pricing or maturity date.

(2) Represents notional principal amounts on derivatives.

(3) The notionals for derivatives with a positive fair value have been netted against derivatives with a negative fair value and are included with derivative financial liabilities.

24. Risk management (continued)

Foreign exchange risk

The corporation is exposed to foreign exchange risk due to differences in the amount and timing of foreign currency denominated asset and liability cash flows. The currency exposure is minimized by matching foreign currency loans against foreign currency funding. This risk cannot be perfectly hedged, because the assets are amortizing loans and the liabilities are discount bonds, which creates timing mismatches for the principal and interest cash flows. However, the corporation has determined that the residual risk is insignificant.

The corporation's policy is to mitigate foreign exchange risk. All foreign currency borrowings are fully hedged at the time of issuance, unless the foreign currency denominated debt is used specifically to finance a like currency asset. The Board's policy limit for the foreign currency funding to foreign currency asset hedge ratio is a range of 90% to 110%. The corporation's actual ratio as at March 31, 2012, is 97.7% (2011 – 98.4%; 2010 – 99.0%).

Derivatives

The corporation uses derivatives to hedge interest rate and foreign exchange risk. Derivatives alter the risk profile of the consolidated balance sheet by reducing mismatches of assets and liabilities, while ensuring interest rate risk and foreign exchange risk are managed within policy limits.

When derivative transactions qualify for hedge accounting, derivatives are designated as cash flow hedges and are accounted for as described in Note 2. Derivative transactions that do not qualify for hedge accounting are still considered economic hedges. Economic hedges that do not qualify for hedge accounting may lead to net income volatility because the derivatives are recorded at fair value and this volatility may not be representative of the overall risk.

Liquidity risk

Liquidity risk is the risk that the corporation cannot meet a demand for cash or fund its obligations at a reasonable cost as they become due.

The corporation measures, forecasts and manages cash flow as an integral part of liquidity management. The corporation's objective is to maintain sufficient funds to meet customer and business operational requirements.

The corporation maintains liquidity through:

- a liquid investment portfolio – cash and cash equivalents, and temporary investments of $988.0 million were on hand as at March 31, 2012 (2011 – $886.0 million; 2010 – $827.8 million)
- access to short-term funding – the corporation's access to funding through the Crown Borrowing Program and capital markets provides the corporation with sufficient liquidity to meet daily cash requirements
- access to a $30.0-million bank operating line of credit

The following table shows the undiscounted cash flows of the corporation's financial liabilities on the basis of their earliest possible contractual maturity. The gross nominal cash flows represent the contractual undiscounted cash flows relating to the principal and interest on the financial liability. The corporation's expected cash flows on certain instruments varies significantly from this analysis. For example, certain borrowings that may be prepaid by the corporation have not been included in their earliest possible maturities due to being impracticable to estimate.

24. Risk management (continued)

Residual contractual maturities of financial liabilities

	March 31, 2012						
($ thousands)	Carrying value	Gross nominal inflow (outflow)	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years
Non-derivative financial liabilities							
Borrowings	$ 20,341,395	$(20,339,669)	$ (2,849,134)	$ (1,964,905)	$ (4,777,537)	$ (9,938,922)	$ (809,171)
Derivative financial liabilities							
Carrying value	84	–	–	–	–	–	–
Cash inflows	–	43	–	38	5	–	–
Cash outflows	–	(127)	–	(81)	(46)	–	–
	$ 20,341,479	$(20,339,753)	$ (2,849,134)	$ (1,964,948)	$ (4,777,578)	$ (9,938,922)	$ (809,171)

	March 31, 2011						
($ thousands)	Carrying value	Gross nominal inflow (outflow)	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years
Non-derivative financial liabilities							
Borrowings	$ 18,951,919	$(18,949,344)	$ (2,294,261)	$ (2,968,427)	$ (2,797,777)	$(10,303,461)	$ (585,418)
Derivative financial liabilities							
Carrying value	4,724	–	–	–	–	–	–
Cash inflows	–	22,957	–	980	5,786	16,191	–
Cash outflows	–	(27,998)	–	(783)	(4,605)	(22,610)	–
	$ 18,956,643	$(18,954,385)	$ (2,294,261)	$ (2,968,230)	$ (2,796,596)	$(10,309,880)	$ (585,418)

Insurance risk management

Assumptions and measurement uncertainty

The corporation's insurance provider determines the reserve for insurance claims actuarially using the Canadian Asset Liability Method (CALM). Under CALM, the future cash flows from the insurance contracts and the assets that support them are dynamically projected in a number of scenarios prescribed by the Canadian Institute of Actuaries (CIA), using current best estimate assumptions with provisions for adverse deviation. The corporation engages independent actuaries from time to time to review its insurance program to ensure that the assumptions, methodologies and processes are prudent.

In calculating the reserve for insurance claims, assumptions must be made about interest rates, asset default, inflation, mortality and morbidity rates, policy terminations, expenses and other factors over the life of the insurance policies. Best estimate assumptions are used for expected future experience. Additional provisions are included in the reserve for insurance claims to provide for possible adverse deviations from the best estimate. If the assumption is more susceptible to change or if there is more uncertainty about the underlying best estimate assumption, a correspondingly larger provision is included in the reserve for insurance claims. There have been no changes in assumptions that have significantly affected the reserve for insurance claims in the current fiscal year.

24. Risk management (continued)

The provisions are reviewed for reasonableness when taken one at a time and also in total. The best estimate assumptions and margins for adverse deviation are reviewed annually and revisions are made where deemed necessary and prudent. The assumptions with the greatest potential impact on net income are mortality and investment returns.

Insurance mortality refers to the rates at which death occurs for defined groups of people and are generally based on corporation five-year average experience. In general, assumed mortality rates do not reflect any future expected improvement, except in some instances where the net effect of reflecting future improvement increases the policy liabilities.

Assumptions related to investment returns include expected future credit losses on fixed income investments. Past corporation experience and industry experience over the long term as well as specific reviews of the current portfolio are used to project credit losses.

Assumptions for termination experience are generally based on corporation five-year average experience.

Expense assumptions are based on corporation recent experience using an internal expense allocation methodology.

25. Subsequent events

The Board approved the consolidated financial statements on May 30, 2012. There were no subsequent events requiring recognition or disclosure within the consolidated financial statements between March 31, 2012, and the date of approval.

Glossary

Agribusiness and agri-food

Includes customers who are suppliers or processors who are selling to, buying from and otherwise serving primary producers. These include equipment manufacturers and dealers, input providers, wholesalers, marketing firms and processors.

Alliances

Relationships established by contract between FCC and other agriculture or financial organizations designed to pool talents and offer expanded customer services.

Allowance for credit losses

Management's best estimate of credit losses incurred on a loan and lease receivable portfolio. Allowances are accounted for as deductions on the balance sheet from loans and leases receivable respectively.

Arrears

All amounts that are past due by more than $500 on a loan, including impaired loans.

Basis point

One hundredth of 1 per cent, used when describing applicable interest rates or the yield of an investment (1 bps = 0.01 per cent).

Corporate social responsibility (CSR)

A company's commitment to operating in an economically, socially and environmentally sustainable manner, while recognizing the interests of its stakeholders, including investors, customers, employees, business partners, local communities, the environment and society at large, as defined by Canadian Business for Social Responsibility.

Counterparty

The other party involved in a financial transaction, typically another financial institution.

Counterparty risk

The risk that the counterparty will not be able to meet its financial obligations under the terms of the contract or transaction into which it has entered.

Credit rating

A classification of credit risk based on the investigation of a company's financial resources, prior payment pattern and history of responsibility for debts incurred.

Crown Borrowing Program

Direct lending provided to the corporation by the federal government.

Customer support program

Plans developed to proactively assist customers who may experience loan repayment difficulties during downturns in a particular segment of the agriculture industry. Individual plans can include deferred payments or flexible repayment schedules.

Debt-to-equity ratio

The level of debt expressed as dollars of debt per one dollar of total equity, excluding accumulated other comprehensive income.

Derivative financial instrument

A financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates and foreign exchange rates. Types of derivative contracts include interest rate swaps, interest rate options, currency swaps and forward contracts.

Effective interest rate method

A method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period.

Efficiency ratio

A measure of how well resources are used to generate income calculated as administration expense as a percentage of revenue. Revenue is composed of net interest income, net insurance income and other income.

Embedded derivative

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Enterprise

Specific type of agricultural operation (dairy, cash crops, beef, etc.).

Enterprise risk management (ERM)

The enterprise-wide application of co-ordinated activities that direct and control an organization with respect to risk.

Fair value

The amount an independent party would pay to purchase or sell a financial instrument in the marketplace. It can be estimated as the present value of cash flows, adjusted for risk.

Foreign exchange risk

The risk of financial loss due to adverse movements in foreign currencies.

Hedge

A risk management technique used to protect against adverse price, interest rate or foreign exchange movements through elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

Impaired loans

Loans where, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Any loan where a payment is 90 days past due is classified as impaired unless the loan is fully secured.

Interest and currency rate swaps

Contractual agreements for specified parties to exchange currencies or interest payments for a specified period of time based on notional principal amounts.

Interest expense

Expense to the corporation incurred on debt.

Interest income

Income earned on loans receivable, cash and investments.

Interest rate risk

The risk that a change in interest rates adversely impacts the corporation's net interest income and economic value.

Leverage

The relationship between total liabilities and the equity of a business.

Loan renewal rate

Percentage ratio of principal dollars renewed to principal dollars matured.

Market value of portfolio equity (MVPE)

The net present value of assets less liabilities. It is used to measure the sensitivity of the corporation's net economic worth to changes in interest rates.

Net disbursements

Disbursements represent the release of funds against approved loans. Net disbursements exclude the refinancing of existing FCC loans.

Net interest income (NII)

The difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

Net interest income margin

Net interest income expressed as a percentage of average total assets.

Notional amount

The amount considered as principal when calculating interest and other payments for derivative contracts. This amount traditionally does not change hands under the terms of the derivative contract.

Other comprehensive income (OCI)

Represents gains and losses due to changes in fair value that are temporarily recorded outside of net income in a section of the shareholder's equity called accumulated other comprehensive income (AOCI).

Prepayments

Prepayments are defined as unscheduled principal payments prior to interest term maturity.

Primary production financing

Refers to customers who have loans from FCC including agriculture operations that produce raw commodities such as crops, beef, pork, poultry, sheep and dairy, as well as fruits, vegetables and alternative livestock. These include, but are not limited to, vineyards, greenhouses, forestry (cultivation, growing and harvesting of trees), aquaculture (growing of fish, both ocean and inland) and part-time farming.

Provision for credit losses

Charged to the income statement by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management.

Return on equity (ROE)

Net income attributable to the shareholder of the parent entity expressed as a percentage of total average equity, excluding accumulated other comprehensive income.

Risk scoring and pricing system (RSPS)

A tool used to evaluate the type and potential impact of risks present in each loan or finance lease to ensure FCC is adequately compensated for the risk in its portfolio. The pricing component of RSPS calculates the risk price (risk adjustment), which is the portion of the loan margin required to cover the risk of loss.

Special Purpose Entity (SPE)

An entity that the corporation has created for a narrow and well-defined objective for which the corporation has rights to obtain the majority of the benefits and therefore may be exposed to risks incident to the activities of the SPE.

Value-added

Agriculture businesses on the input or output side of primary production that produce, transport, store, distribute, process or add value to agriculture commodities.

Variable interest entity

An entity that by design does not have sufficient equity at risk to permit it to finance its activities without additional subordinated financial support, or in which equity investors do not have the characteristics of a controlling financial interest.

Sources for agriculture facts and figures

We consulted online and print publications from the following sources to provide the facts about agriculture that you'll find on the inside front and back covers:

- Agriculture and Agri-Food Canada (www.agr.gc.ca)
- Canadian Association of Agri-Retailers (www.caar.org)
- Canadian Federation of Agriculture (www.cfa-fca.org)
- FCC Vision Panel (www.fccvision.ca)
- Johnson-Shoyama Graduate School of Public Policy (www.schoolofpublicpolicy.sk.ca)
- Government of Canada: Mission of Canada to the European Union (www.canadainternational.gc.ca/eu-ue)
- Statistics Canada (www.statcan.gc.ca)

Interested in a particular fact or figure? Contact our Corporate Communication department at communications@fcc-fac.ca for full reference details.

FCC office locations

British Columbia
Abbotsford, Dawson Creek, Duncan, Kelowna, Surrey

Alberta
Barrhead, Brooks, Calgary, Camrose, Drumheller, Edmonton, Falher, Grande Prairie, High River, LaCrete, Leduc, Lethbridge, Lloydminster, Medicine Hat, Olds, Red Deer, Stettler (S), Vegreville, Vermilion, Westlock

Saskatchewan
Assiniboia, Carlyle, Humboldt, Kindersley, Meadow Lake (S), Moose Jaw, Moosomin (S), North Battleford, Prince Albert, Regina, Rosetown, Saskatoon, Swift Current, Tisdale, Weyburn, Wynyard (S), Yorkton

Manitoba
Arborg, Brandon, Carman, Dauphin, Killarney (S), Morden, Neepawa, Portage la Prairie, Shoal Lake (S), Steinbach, Stonewall (S), Swan River, Virden, Winnipeg

Ontario
Campbellford (S), Chatham, Clinton, Embrun, Essex, Frankford, Guelph, Kanata, Kingston, Lindsay, Listowel, London, Mississauga, North Bay, Owen Sound, Simcoe, Stratford, Thornton, Vineland, Walkerton, Woodstock, Wyoming

Quebec
Alma, Blainville, Drummondville, Gatineau (S), Granby, Joliette, Lévis, Rivière-du-Loup, Salaberry-de-Valleyfield, Sherbrooke, Ste-Marie, St-Hyacinthe, St-Jean-sur-Richelieu, Trois-Rivières, Victoriaville

New Brunswick
Grand Falls, Moncton, Sussex (S), Woodstock

Newfoundland and Labrador
Mount Pearl

Nova Scotia
Kentville, Truro

Prince Edward Island
Charlottetown, Summerside

(S) Satellite office – limited hours

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P.O. Box 4320
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Fax: 306-780-5167

FCC Management Software
1800 Hamilton Street
P.O. Box 4320
Regina SK S4P 4L3
1-800-667-7893
Telephone: 306-721-7949
Fax: 306-721-1981

FCC Ventures
1800 Hamilton Street
P.O. Box 4320
Regina SK S4P 4L3
Telephone: 306-780-5708
Fax: 306-780-8757

Government and Industry Relations
Tower 7 Floor 10 Room 319
1341 Baseline Road
Ottawa ON K1A 0C5
Telephone: 613-773-2940
Fax: 613-960-7024

www.fcc.ca
csc@fcc-fac.ca

Customer toll-free number
Extended hours: 1-888-332-3301

FCC's venture capital investments are managed by:

AVRIO VENTURES
www.avrioventures.com
info@avrioventures.com

Calgary
Crowfoot West Business Centre
235-600 Crowfoot Crescent N.W.
Calgary AB T3G 0B4
Telephone: 403-215-5492
Fax: 403-215-5495

Montreal
2500-1155 René Lévesque Blvd. W.
Montreal QC H3B 2K4
Telephone: 514-868-9904

Toronto
850-36 Toronto Street
Toronto ON M5C 2C5
Telephone: 416-364-8122

In 2010, Canada was the world's fifth-largest exporter of food

With the earth's population estimated to surpass nine billion by 2050, Canada's role on the world stage will only get bigger

Canada exports agriculture and agri-food products to

197

countries

Each year, agriculture and agribusiness contribute

$130 billion

to the Canadian economy

Canada boasts one of the safest food supplies on earth, ranking fourth out of 17 developed countries for overall food safety

Farm Credit Canada
Advancing the business of agriculture

Canada

Agriculture matters

Farm Credit Canada
2012-13 Annual Report

Agriculture matters

Agriculture matters. It's a simple statement that says so much.

Agriculture matters because it's a major force in Canada. More than two million Canadians work in primary production (crops and livestock) or agribusiness and agri-food (suppliers, processors and manufacturers). The full agriculture value chain is vital to Canada's economy.

Agriculture matters because the world needs a dependable source of safe, healthy food. Canada is one of the few nations that can both feed its own population and help feed the world. Canada is one of the top food exporters, and international markets are growing.

Agriculture matters because it's modern, vibrant and diverse. It's filled with forward-thinking people who love what they do. It provides exciting opportunities for producers and business people.

The bottom line is that agriculture has never mattered more to Canada and the world.

At FCC, we see this every day. We live it every day. We believe in the strength of agriculture and the people who make it their livelihood. We're proud that more than 100,000 of them are our customers.

That's why we're committed to advancing the business of agriculture – its people, products and potential – today and in the future. We understand the industry. We work with our customers to meet their needs so that they can face challenges and take advantage of opportunities. We work with our partners to move the industry forward and ensure that Canadians understand what agriculture is all about.

Our lending and leasing products are tailored to the unique needs of producers of all ages, with operations of all sizes and in all sectors. We also provide a range of business services: accounting and field crop management software; learning and knowledge programs; loan insurance; and venture capital. We believe in strong and effective risk management throughout all our operations.

While primary production remains our foundation, we also serve those businesses that serve producers – equipment manufacturers and dealers, input providers, food processors and wholesalers. We help these businesses expand into new markets, improve efficiency and capacity, take advantage of opportunities, adopt new technology and compete in the marketplace.

We support rural communities where our customers and employees live and work through our community investment. We offer farm safety programs, work with food banks to address hunger issues and offer financial support to local projects.

At FCC, we're focused on agriculture. We're committed to helping the industry thrive and grow.

Agriculture matters. We're working hard to make FCC matter to agriculture and the people who make it great.

FCC customer value proposition

From its origins in 1959, FCC today proudly serves Canadian agriculture as the leading provider of financing to the industry.

We focus on the primary producer as well as suppliers and processors along the agriculture value chain.

We provide our customers with flexible, competitively priced financing, equity, insurance, management software, information and learning.

These services help our customers make sound business decisions and experience greater success.

We take time to get to know our customers, their individual needs, goals and vision for the future. We work with them through challenges and help them pursue opportunities.

We're easy to do business with.

Agriculture. We know it. We love it. We're in it for the long run.

Operational and financial highlights

Canadian agriculture experienced a strong 2012-13. While some sectors faced ongoing challenges, most enterprises had a profitable year. Farm capital and farmland values continued to rise, while cash receipts improved over the previous year in most provinces. This created a robust demand for commodities and agribusiness products. FCC continued to provide customers with flexible and customized financial solutions, knowledge and expertise to help them succeed. FCC's unwavering commitment to advancing the business of agriculture and delivering an extraordinary customer experience ensured that the corporation remained financially strong. In 2012-13, growth in loans receivable was $1.9 billion or 8.3%.

The number of loans disbursed was 47,046 in 2012-13 and the average size of the loans disbursed was $162,406, resulting in net disbursements of $7.7 billion. Net interest income increased by $59.0 million and equity continues to grow with corporate earnings. As the financial results indicate, FCC continues to build a strong financial foundation, which helps to ensure the continued ability to fund investment and growth in the industry.

For the years ended March 31

Operational highlights

Loans receivable portfolio	2013	2012	2011
Number of loans	147,696	126,496	120,070
Loans receivable ($ millions)	25,133.3	23,202.3	21,401.3
Net portfolio growth (%)	8.3	8.4	8.0
Impaired loans as a percentage of loans receivable (%)	1.3	1.2	1.5
New lending			
Number of loans disbursed	47,046	45,578	42,021
Net disbursements ($ millions)	7,746.2	7,116.8	6,153.2
Average size of loans disbursed ($)	162,406	156,150	146,432

Financial highlights*

Consolidated balance sheet ($ millions)	2013	2012	2011
Total assets	25,870.8	23,829.0	21,870.7
Total liabilities	22,332.1	20,714.7	19,184.8
Total equity	3,538.7	3,114.3	2,685.9
Consolidated statement of operations ($ millions)			
Net interest income	861.4	802.4	753.8
Provision for credit losses	38.1	1.8	35.6
Other income	15.6	51.1	16.0
Administration expenses	327.4	288.1	277.5
Fair value adjustment	1.9	2.0	3.5
Net income	513.4	565.6	460.2

*The historical data has been restated due to prior period adjustments.

Corporate profile

Farm Credit Canada (FCC) is a financially self-sustaining federal Crown corporation reporting to Parliament through the Minister of Agriculture and Agri-Food. Our corporate office is located in Regina, Saskatchewan. We provide financing and other services to primary producers, value-added operators, suppliers and processors along the agriculture value chain. Operating from more than 100 offices located primarily in rural communities, our more than 1,600 employees are passionate about the business of agriculture.

Our roots date back to 1929, when our precursor, the Canadian Farm Loan Board (CFLB), was established to provide long-term mortgage credit to farmers. In 1959, the Farm Credit Act established FCC as an agent Crown corporation named in Part 1 of Schedule III of the Financial Administration Act, making us the successor to the CFLB.

In 1993, the Farm Credit Corporation Act was proclaimed into law, providing an expanded mandate and broader lending and administrative powers. Under the new mandate, FCC could provide financial services to farming operations, including individuals, farming corporations and farm syndicates, under the authority of one act.

In 2001, the Farm Credit Canada Act received royal assent, allowing us to offer an even broader range of services to producers and agribusiness operators.

Vision

FCC's long-term vision is as follows:

The full agriculture value chain believes FCC is advancing the business of agriculture by providing financial products, services and knowledge tailored to producers and agribusiness operators.

Our customers are advocates of FCC and can't imagine doing business without us.

We are socially and environmentally responsible and an employer of choice everywhere we operate.

We make it easy for customers and employees to do business.

We are financially strong and stable, and invest significantly in the agriculture and agri-food industry.

Mission

The purpose of the corporation is to enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small and medium-sized businesses, that are businesses related to farming. The primary focus of the activities of the corporation shall be on farming operations, including family farms.

Corporate values

We are committed to advancing the business of agriculture. We do this by setting our sights high – working to benefit our customers and to help employees achieve their potential.

Our corporate values represent these core beliefs:

Act with integrity

We are ethical and honest. We treat customers, colleagues and all stakeholders with respect.

Focus on the customer

We care about our customers, and we pride ourselves on providing them with an extraordinary experience based on personal relationships, flexibility and industry knowledge.

Achieve excellence

We share a commitment to high performance, accountability and efficiency in order to achieve excellence.

Working together

We believe in the power of teamwork. Whether delivering service tailored to customer needs or designing solutions to benefit the industry, we work together as one team.

Give back to the community

We take corporate social responsibility seriously. We believe in giving back to the communities where our customers and employees live and work, striving to reduce our impact on the environment and contributing to the success of the agriculture industry.

Message from the President and CEO

Agriculture matters. It's a major economic force in Canada. It's dynamic and diverse, filled with forward-thinking and innovative people. And it's growing. Whether it's primary production or agribusiness and agri-food, the outlook has never been so bright in terms of opportunities and potential.

Commodity prices are high and interest rates remain at historical lows. That doesn't mean some sectors aren't facing continuing challenges. But overall, these are good times for Canadian agriculture.

The industry's continued strength is critical to Canada's future. FCC plays an important role in the market, providing a range of financial products, business services and knowledge programs to customers across the entire agriculture value chain.

Agriculture is all we do

Agriculture is FCC's sole focus. This makes us unique among financial institutions.

As a self-sustaining federal Crown corporation, FCC is financially stable. Our strong bottom line allows us to not only fund our day-to-day operations; we can also invest in advancing the business of agriculture and engage Canadians in learning more about an industry that touches so many lives.

FCC's ongoing stability and consistent presence in the financial services marketplace has another benefit. It inspires confidence in our more than 100,000 customers, who tell us that they choose FCC for two reasons. The first is our quality products and services. Second and just as important is the time we take to build personal relationships. They appreciate our commitment to them and to agriculture over the long term. This gives them the confidence to grow and expand, knowing that FCC will be by their side to support them.

We're very deliberate about the experience we create for customers, and our Customer Experience Index gives us feedback to gauge how we're doing. We only count perfect scores in our overall result, and more than 60 per cent of our customers across Canada give us a perfect rating.

We understand agriculture

A big reason behind our strong customer experience rating is that when it comes to agriculture, we get it. Our 1,600 employees live it every day. When we say that our people are our greatest strength, it's not just talk. It's the truth.

Our employees are passionate about the industry and serving customers. They take this passion beyond the workplace and into their communities, freely giving their time and effort to many worthwhile causes.

They also lead a number of initiatives on behalf of FCC, the largest being the annual FCC Drive Away Hunger program. With help from our business, school and community partners, Drive Away Hunger raised more than 1.4 million pounds of food and $760,000 for food banks nationwide in 2012 – an all-time record. We're looking forward to achieving even more during the 10th anniversary of Drive Away Hunger in 2013.

FCC is a prudent lender

Everything we do is built on sound business principles. The strength of our business – strong equity position, positive net income, loan portfolio of more than $25 billion and 20 consecutive years of growth – is the result of a planned and prudent approach to being the best financial services provider we can be.

At FCC, we strive to conduct business in a manner consistent with developing and supporting a strong and healthy agriculture industry.

FCC has an established credit risk management program that ranges from portfolio diversification to managing risk at the individual transaction level. We develop and deliver all of our products and services with appropriate risk management considerations. We closely examine and monitor leverage ratios and loan-to-security ratios. We look at our customers' repayment ability based on projections of future rates, not just at current rates, and we ensure the accuracy of our collateral asset values.

We're always open to how we can make our strong approach to risk management even better. That's why we welcomed the recently completed Office of the Superintendent of Financial Institutions Canada (OSFI) review as an opportunity to take new steps forward.

Their findings will help guide our approach for the next fiscal year and beyond.

Working together for agriculture

What's best for agriculture is ultimately best for Canada. It's a view shared by FCC and other financial institutions. What's more, I firmly believe that FCC and all other financial institutions have a place in serving agriculture. Customers value having choice in the marketplace; in fact, the majority of our customers do business with other financial institutions. The industry and the larger economy are better for our collective presence. Our products and services generate economic activity and stability for our customers. In turn, they generate business for other financial institutions and help grow the economy. It's a win-win situation.

There are many opportunities for us to work together with other financial institutions. We're working to develop a closer relationship with the credit union system. And, we currently work with individual banks on a loan-by-loan basis and have started discussions with some on how to further enhance our partnership.

Agriculture More Than Ever

The story of agriculture is one of success, promise and determination. FCC wants to ensure that this story is told. In 2012, we began publicly championing a cause to show Canadians how important agriculture is to Canada and the world.

Since then, Agriculture More Than Ever has grown to include more than 159 partners from agriculture, industry associations, private sector businesses, trade organizations and media. These partners, and our supporters, are sharing their stories of agriculture as a modern and vibrant industry.

There are literally thousands of job opportunities across Canada, and when we grow agriculture together, everyone wins: rural communities, businesses and the people who make this industry great.

I'm proud to be part of an organization that's working alongside everyone for the betterment of agriculture and so are all our employees.

Greg Stewart

Greg Stewart, President and CEO

Message from the Board Chair

These are exciting times for agriculture and for FCC as it continues its outstanding support of an industry that means so much to Canada.

Beyond innovative products and services, FCC truly makes a difference in helping its customers succeed. I've heard many times in conversation with FCC employees that the customer relationship goes beyond the loan. That's certainly true in the impressive suite of knowledge offerings, software and other tools FCC makes available to customers and the public.

I'm especially proud of the support FCC offers to young farmers and people entering the agriculture industry by offering specialized financing, learning opportunities and other tools to help them get established. The future of farming depends on the industry's ability to attract young people and provide them with the skills they need to successfully operate farms and other agribusinesses. The Board is particularly proud that FCC loaned over $2.32 billion to young farmers in 2012-13.

My colleagues on the Board of Directors and I continue to hear positive and heartfelt comments from FCC customers, partners and community representatives regarding the professionalism and dedication of FCC employees. This goodwill comes not only from business relationships, but also from the time and effort that employees give to community causes. On behalf of the Board, I thank all FCC employees for their work and community spirit.

I want to acknowledge the contributions of Gill Shaw, who retired as FCC Board Chair in October 2012. His expertise and strong leadership helped move the organization forward and maintain its position as a leader in financial and business services for agriculture. I would like to welcome Sylvie Cloutier, Doris Priddle and Brenda Schoepp, who joined as Directors of the Board this past year. Their extensive backgrounds and abilities will complement the Board in its role to provide strategic direction to FCC.

As the boundaries of Canadian agriculture expand through global market access, technological advances and new product development, the industry needs a strong, flexible and knowledgeable financial services partner. FCC is well positioned to meet those needs to help producers and agribusinesses grow and prosper.

Respectfully submitted on behalf of the FCC Board of Directors,

Dale Johnston, Board Chair

Message from the Agriculture Minister

Canadian agriculture has a well-deserved international reputation for quality, integrity and innovation. This reputation continues to grow as markets expand for producers and agribusinesses.

Agriculture is a cornerstone of Canada's economy that contributes $130 billion to our gross domestic product each year and remains a catalyst for economic growth. Our Government remains committed to creating the right conditions for our producers, agribusinesses and agri-food operators to remain world leaders.

I know that all FCC employees share this commitment. They do great work serving customers at all points along the agriculture value chain. The fact that FCC has sustained 20 consecutive years of portfolio growth speaks volumes about the priority that FCC employees place on building long-term customer relationships and meeting their unique agriculture needs.

FCC's focus on preparing customers for success today and in the future also supports the principles of Growing Forward 2, Canada's agricultural framework signed by our Government and our provincial and territorial partners. The framework provides producers and agribusiness operators with the tools and resources they need to meet emerging challenges and opportunities and stay ahead of the ever-changing demands of consumers.

I want to congratulate FCC and all partners who are moving the "Agriculture More Than Ever" cause forward. Canadians need to hear the true story of agriculture, its bright future and the contributions its people are making, not only to our country, but to countries around the globe. In my travels, I've encountered plenty of Ag More Than Ever caps and t-shirts and I've even seen some colourful bale wraps along the highway supporting this great cause.

Looking ahead, more and more opportunities are opening up for agriculture as it continues to evolve and for FCC as it continues to provide leading-edge products and services. Our Government looks forward to continuing a strong working relationship with FCC. Together, we'll help ensure a strong future for Canadian agriculture.

Gerry Ritz, Agriculture Minister

FCC and public policy

Statement of priorities

FCC supports the federal government's vision for continued growth and prosperity in the agriculture industry.

The Minister of Agriculture and Agri-Food has established the following priorities to ensure that FCC continues to strengthen the agriculture industry:

- Agriculture is a dynamic industry that continues to adapt to an increasingly complex environment. Farms are getting bigger and farm families continue to evolve their businesses. Access to capital allows producers and agribusinesses to continue to adopt innovative practices and business models that enable them to lower production costs, develop new products, reduce environmental footprints and compete in the global marketplace. To facilitate this evolution, it's vital that FCC continue to provide a full range of financial and business products and services tailored to the industry's unique needs. These factors are essential to the industry's long-term success and contribute to the Government of Canada's vision of supporting the growth and prosperity of Canadian agriculture.
- As the size and complexity of agricultural operations increases, so do the associated financing requirements. As a leading provider of agriculture financing in Canada, FCC is a critical financial partner to the agriculture industry. FCC will continue to conduct business in a prudent manner, consistent with developing a strong and healthy agriculture sector over the long term. This may mean partnering with credit unions and other financial institutions to manage risk or address liquidity issues that sometimes challenge smaller institutions.
- Sound management is the key to any successful business and agriculture is no different. FCC will continue to provide Canadian producers with unique business services and knowledge through publications, workshops and learning programs, to help advance their business management skills. FCC will grow the knowledge and expertise of its employees to properly serve the needs of Canadian agriculture. In order to provide a superior level of customer service and support to the industry, it's vital that FCC has employees who are knowledgeable, engaged and focused on the needs of customers, the agriculture industry and rural Canada as a whole.
- The future is exciting for the next generation of producers. FCC will continue to work with young farmers and new entrants in agriculture by offering products that facilitate the intergenerational transfer of farm operations and establish new producers who are well equipped to navigate challenges and take advantage of opportunities.
- A top priority for this government continues to be the expansion of markets for Canadian agriculture and agri-food products. As such, it's important that FCC continue to work with the Business Development Bank of Canada and Export Development Canada, along with Agriculture and Agri-Food Canada (AAFC), to support access to international markets for Canadian agribusinesses.
- The story of Canadian agriculture is one of success, promise, challenge and determination. For the industry to reach its full potential, all Canadians must have a better understanding of agriculture and its important contributions to the economy and individuals. FCC is showing leadership by initiating "Agriculture More Than Ever." FCC will continue to work with industry and portfolio partners, producers, agribusinesses and AAFC to improve the public's perception of agriculture.
- Building on last year's priorities, FCC should continue to work collaboratively with AAFC on key issues affecting agriculture. FCC and AAFC should continue to share advice and expertise on challenges and opportunities that are of mutual interest to both organizations, including interest rates, Growing Forward 2, service excellence and farmland values. FCC will also work closely with AAFC as required on the state of the hog industry.
- FCC will remain mindful of the fiscal constraints faced by the Government of Canada and the outcomes of the Strategic and Operating Review.

We're proud to serve all of agriculture, all the time – all sectors, all across Canada

FCC's public policy role

FCC enhances rural Canada by providing specialized and personalized business and financial services to farm families and agribusinesses.

Our public policy role is the foundation of everything that we do to advance the business of agriculture.

With more than 100,000 customers* nationwide, we help producers and agribusiness operators succeed in an increasingly complex and demanding industry.

FCC provides financing to producers of all ages and to agriculture operations of all sizes, across all sectors. We loan money to agribusinesses, including suppliers and processors that serve producers. A healthy value chain provides producers with more stable purchasing and selling options.

In 2012-13, 40,478 customers received loans or other financial products through one of more than 100 FCC offices, which are located primarily in rural areas across Canada:

Alberta – 7,920
British Columbia – 2,746
Manitoba – 3,082
New Brunswick – 472
Newfoundland and Labrador – 126
Nova Scotia – 481
Ontario – 10,807
Prince Edward Island – 317
Quebec – 4,349
Saskatchewan – 10,166
Yukon – 12

Among these customers, 38,549 are primary producers and 1,929 are agribusiness operators.

In 2012-13, we loaned over $2.32 billion to young farmers.

We're dedicated to agriculture and take the long-term view

FCC is a profitable, financially self-sustaining Crown corporation. We support the agriculture industry and are committed to its long-term success. Our strong financial position enables us to create innovative products and services that are tailored to the dynamic needs of the industry and ensure that producers and agribusiness operators have choices in the marketplace.

Our loan products reflect that agriculture is a cyclical industry and that it takes time for business operations to flourish. Unpredictable weather and market conditions can negatively affect even the best producers and agribusiness operators. We support our customers through highs and lows.

For over 10 years, FCC's customer support program has helped producers manage when unexpected challenges arise, particularly during unpredictable events such as avian flu, drought, flooding and the 2003 BSE (bovine spongiform encephalopathy) crisis.

In 2012, FCC offered a customer support program to customers in the hog sector who faced high input costs and low prices. The program included payment schedule adjustments or deferrals to help see customers through short-term cash flow problems.

*FCC currently has more than 100,000 customers. The customer number includes all customers with an active loan balance who are primary borrowers, co-borrowers or guarantors for personal and corporate loans, including primary production, agribusiness and agri-food, and alliances.

We're visionary and operate our business in a sustainable manner

FCC offers unique products and services to help young farmers and agribusiness entrepreneurs succeed in a sophisticated marketplace that continually evolves.

We believe that knowledge is vital to the success of our customers and the industry. We offer workshops, publications and learning forums across the country, and encourage employees and customers to share insights and information. These services are offered free of charge.

Our corporate social responsibility framework focuses on agriculture and food, community, customers, employees and the environment. To support our commitment, we offer environmental information and products to our customers, hire and develop employees who are passionate and knowledgeable about agriculture, give back to the communities where our customers and employees live and work, and continually work to reduce our environmental footprint.

The annual FCC Drive Away Hunger program is a unique food drive that focuses on reducing hunger in rural Canada. All 100 FCC offices across Canada collect food and cash donations. A focal point of the program is the tractor tours that take place across the country each October.

The 2012 FCC Drive Away Hunger program was the most successful in its nine-year history, with more than 1.4 million pounds of food and $760,000 raised for food banks nationwide. The support of a record number of partners (393), schools (307), as well as hundreds of volunteers and thousands of generous Canadians were critical to the program's success.

Corporate governance

We're accountable to the Parliament of Canada

FCC is governed by the Farm Credit Canada Act and the Financial Administration Act. Like other Crown corporations, we're subject to laws such as the Federal Accountability Act, Privacy Act, Access to Information Act, Canadian Labour Code, Employment Equity Act and Official Languages Act.

FCC is accountable to Parliament through the Minister of Agriculture and Agri-Food. We report to Parliament and Canadians on our operations through our annual report, corporate plan summary and quarterly financial reports.

We build relationships with our customers, partners and stakeholders

FCC looks to a variety of stakeholders and partners for guidance and expertise in public sector governance practices.

FCC representatives regularly meet with partners at Agriculture and Agri-Food Canada, the Treasury Board of Canada Secretariat, the Department of Finance and other federal Crown corporations to ensure that our policies and procedures are current and sound. We communicate with Export Development Canada and the Business Development Bank of Canada to share ideas and best practices about ways we can work together to benefit customers. We also seek opportunities to work with banks and credit unions to meet our customers' financial needs.

The FCC Vision Panel is a research advisory group representing Canadian producers and agribusiness operators of all sizes and across all sectors. The panel's input helps us to ensure that our products and services meet the needs of the agriculture industry.

In addition, the FCC Board of Directors hosts an annual public meeting in August where we report our activities and financial results and listen to feedback from interested stakeholders and the Canadian public about our mandate and strategic direction.

FCC representatives attend events and meetings hosted by industry and producer groups. We share knowledge and solicit input and feedback on issues facing agriculture.

We help safeguard the environment

FCC exercises all reasonable care to safeguard the environment and protect the value of real property taken as lending security.

To ensure protection of the environment and mitigation of identified risks, FCC conducts environmental assessments of all properties used by customers to secure financing. The lending decision process also requires customers to provide written declarations that their properties are free from contamination.

As a federal Crown corporation, FCC is also a federal authority with accountabilities under the Canadian Environmental Assessment Act, 2012 (CEAA 2012). We do not provide financing to projects or activities that will cause significant adverse environmental effects.

The CEAA 2012 (sections 67-69), states that federal authorities must not carry out or permit projects to be carried out on Government of Canada-owned lands, and must not carry out or enable projects to be carried out outside Canada, unless the federal authority determines that the project is not likely to cause significant adverse environmental effects; or, if the Governor in Council decides that the effects are justified under the circumstances. FCC must report any environmental assessments carried out regarding projects on federally owned lands or projects outside Canada.

In 2012-13, FCC did not conduct any environmental assessments for projects that fall under sections 67-69 of the CEAA 2012:

- projects on federal lands – 0
- projects outside Canada – 0
- projects referred for decision by the Governor in Council – 0

We represent Canadians

The FCC Board of Directors oversees the corporation's business operations. Directors represent the interests of Canadian people, particularly those who make their livelihood in the agriculture industry.

Directors are appointed by the Governor in Council upon the recommendation of the Minister of Agriculture and Agri-Food. They serve terms of up to four years and may be reappointed. Except for the President and CEO, directors are independent of management.

Board composition

The Board is composed of 12 directors, including the Chair and the President and CEO. Directors include successful primary producers and agribusiness operators from rural and small urban centres. They reflect the broad spectrum of Canadian agriculture and bring a combination of senior agriculture, business and financial experience and expertise to the task of governing a corporation that serves an increasingly complex industry.

Directors participate in one of three Board committees: Audit, Human Resources or Corporate Governance.

The Board is committed to financial transparency. Its Audit Committee works closely with the Office of the Auditor General (OAG) of Canada to ensure the integrity of FCC's internal controls and management information systems. The OAG audits FCC every year and performs a special examination at least every 10 years. The purpose of special examinations is to ensure that Crown corporations' systems and practices provide reasonable assurance that assets are safeguarded, resources are managed economically and efficiently, and operations are carried out effectively. The most recent special examination of FCC was completed July 31, 2012. The full report is available on FCC's public website.

New appointments

Gill Shaw's term as Board Chair ended October 30, 2012. Dale Johnston, a director since June 23, 2011, was appointed Board Chair on December 13, 2012.

Sylvie Cloutier of Bromont, Quebec was appointed to replace Caroline Belzile effective April 5, 2012. On November 26, 2012, Doris Priddle of Toronto, Ontario, was appointed to replace Carl Spencer and Brenda Schoepp of Rimbey, Alberta, was appointed to replace Ron Hierath on February 10, 2013.

We take care of the business

The Board oversees the strategic planning process and provides input, guidance, validation and a critical evaluation of strategic plans and initiatives. After the plans are approved, the Board provides support to implement them and measure success. Strategic initiatives are reviewed throughout the year.

The roles and responsibilities of the Board Chair, directors, President and CEO and committees are established in written profiles and charters. The Board is responsible for six major areas:

- integrity – legal and ethical conduct (setting the tone at the top)
- strategic planning and risk management
- financial reporting and public disclosure
- leadership development
- government relations and corporate social responsibility
- corporate governance

FCC has an established enterprise risk management process designed to identify potential events that may affect business operations. The Board ensures that appropriate authorities and controls are in place, risks are properly managed and the achievement of goals and objectives isn't in jeopardy.

Senior FCC managers work closely with the Board to ensure that the Board is fully aware of the corporation's affairs. The Chief Financial Officer and the Chief Operating Officer attend every Board meeting. Other members of the Executive Management Team also attend meetings on a rotating basis to strengthen the relationship between the Board and management. Time is set aside at each meeting for the Board and its committees to meet without management present.

The Board follows a formal approach to the President and CEO's goal setting and performance review, consistent with the Performance Management Program established by the Federal Privy Council Office.

2012-13 Board remuneration, attendance and expenses

Director	Annual retainer (A)	Per diems (B)	Total remuneration (A & B)	Board meeting attendance	Committee meeting attendance	Board travel and related expenses
Donald Bettle	$ 6,200.00	$ 16,490.00	$ 22,690.00	5 of 5	6 of 7	$ 18,124.98
Sylvie Cloutier	6,200.00	9,457.50	15,657.50	5 of 5	4 of 4	14,191.89
Caroline Granger	7,200.00	11,640.00	18,840.00	5 of 5	4 of 4	13,347.76
Brad Hanmer	7,200.00	6,790.00	13,990.00	4 of 5	4 of 4	6,135.91
Ron Hierath	5,683.33	4,365.00	10,048.33	3 of 4	1 of 3	4,322.93
Dale Johnston*	4,999.00	0.00	4,999.00	5 of 5	4 of 4	17,395.47
John Klippenstein	7,200.00	12,125.00	19,325.00	5 of 5	8 of 8	10,448.14
Doris Priddle	2,066.67	6,305.00	8,371.67	2 of 2	1 of 1	9,416.99
Ross Ravelli	6,200.00	9,942.50	16,142.50	4 of 5	6 of 8	13,314.01
Brenda Schoepp	516.67	2,910.00	3,426.67	1 of 1	1 of 1	3,243.94
Gill O. Shaw	7,233.33	8,245.00	15,478.33	3 of 3	3 of 4	5,417.39
Jason Skinner	6,200.00	8,245.00	14,445.00	4 of 5	7 of 8	7,094.29
Carl Spencer	4,133.33	7,760.00	11,893.33	3 of 3	2 of 2	12,057.27
Total	**$ 71,032.33**	**$ 104,275.00**	**$ 175,307.33**			**$ 134,510.97**

There were eight Audit, four Human Resources, and four Corporate Governance committee meetings.

Board performance

Upon appointment to the Board, each director receives a detailed orientation and meets with senior management to learn about FCC. Directors also regularly visit customer operations and attend employee meetings, as well as conferences and seminars relevant to corporate governance and FCC's business. Some are also involved in director certification programs.

The Board regularly assesses its collective performance and the individual performances of its directors through a structured self-evaluation process.

Position profiles for the Chair and individual directors are reviewed annually to ensure that they accurately describe desired competencies and skills. Gaps are addressed through new appointments, training and hiring outside experts to assist the Board in its review of technical or specialized issues.

Compensation

Directors are paid an annual retainer and per diem amounts established by the Governor in Council, pursuant to the Financial Administration Act. Rates were last set on January 8, 2008.

- The Board Chair receives an annual retainer of $12,400.*
- Committee chairs receive an annual retainer of $7,200.
- Other directors receive an annual retainer of $6,200.
- All directors, including the Chair, receive a per diem of $485 for meetings, training sessions, travel time and FCC sponsored events.
- Directors are reimbursed for all reasonable out-of-pocket expenses, including travel, accommodation and meals, while performing their duties.

During 2012-13, there were five Board meetings and 16 committee meetings. Total remuneration (annual retainer and per diems) paid to all directors was $175,307.33. Total Board travel and related expenses were $134,510.97, compared to $179,159.53 in 2011-12.

Code of conduct, ethics and values

At FCC, acting with integrity and maintaining the highest ethical standards are vital priorities. On appointment and every year during his or her tenure, each director signs a declaration committing to act in accordance with FCC's Code of Conduct and Ethics. The Board has also established a process to directly disclose any potential violations of the code by the President and CEO or his

*As a former member of Parliament, Dale Johnston is subject to the Members of Parliament Retiring Allowances Act. His total remuneration is capped at $5,000.

direct reports, and a policy that specifies how to address situations where a director has a conflict of interest. FCC's Integrity Officer discloses all possible violations of the code and discusses ongoing employee education and awareness with the Board annually.

Board committees

Audit Committee

Chair: John Klippenstein
Members: Doris Priddle, Ross Ravelli and Jason Skinner

Members of the Audit Committee are independent of management. All committee members are financially literate and at least one member is considered to be a financial expert.

The Audit Committee oversees FCC's financial performance and ensures the integrity, effectiveness and accuracy of the corporation's financial reporting, control systems and audit functions.

The Audit Committee reviews the travel and hospitality expenses of the President and CEO quarterly. The committee also annually reviews a listing of all contracts over $250,000.

In addition to meeting with management, this committee regularly meets with representatives of the Office of the Auditor General and FCC's internal auditors without management present.

Human Resources Committee

Chair: Brad Hanmer
Members: Donald Bettle, Sylvie Cloutier and Greg Stewart (CEO)

The Human Resources Committee reviews all major human resources policy matters. The committee is responsible for advising the Board with respect to the skills and characteristics essential to the position of the President and CEO and how to assess his performance. It also works with the President and CEO to agree on an annual development plan.

The Human Resources Committee is responsible for reviewing the corporation's compensation structure, succession plan (including training and development plans for employees), and the executive perquisites program.

Corporate Governance Committee

Chair: Caroline Granger
Members: Sylvie Cloutier, Dale Johnston (Board Chair) and Brenda Schoepp

The Corporate Governance Committee reviews and makes recommendations to the Board with respect to sound governance practices. It also oversees the corporation's strategic planning process, including enterprise risk management and FCC's corporate social responsibility program. This committee also acts as the Board's nominating committee.

The Corporate Governance Committee regularly reviews the number, structure and mandates of the Board's committees and is responsible for conducting Board evaluations concerning the performance of directors, committees and the Board as a whole. The Corporate Governance Committee also oversees the FCC policies on ethics, conflict of interest and code of conduct for employees and directors.

FCC Board of Directors*

Dale Johnston
Owner/operator, mixed farming operation

Ponoka County, Alberta
Appointed director June 23, 2011
Appointed Board Chair December 13, 2012

Greg Stewart, P.Ag., C.Dir.
President and CEO, FCC

Regina, Saskatchewan
Appointed January 1, 2008
Reappointed October 4, 2012

Donald Bettle
Owner, cow/calf operation and woodlot

Passekeag, New Brunswick
Appointed January 25, 2007
Reappointed February 10, 2010 and November 1, 2012

Sylvie Cloutier, BA, Comm.
President and CEO, Council of Food Processing and Consumer Products

Bromont, Quebec
Appointed April 5, 2012

Caroline Granger
President and CEO, The Grange of Prince Edward Vineyards and Estate Winery

Hillier, Ontario
Appointed June 27, 2007
Reappointed August 6, 2010

Brad Hanmer, B.Sc.Ag.
Co-owner/operator, commercial grain and pedigreed seed farm

Govan, Saskatchewan
Appointed January 25, 2007
Reappointed February 10, 2010 and November 1, 2012

John Klippenstein, FCMA
COO, Klippenstein Management Services

Steinbach, Manitoba
Appointed July 30, 2008
Reappointed December 15, 2011

Doris Priddle, MBA
Owner, Priddle Farms Inc.

Toronto, Ontario
Appointed November 26, 2012

Ross Ravelli
Owner, Ravelli Farms Ltd.

Dawson Creek, British Columbia
Appointed February 10, 2010
Reappointed November 22, 2012

Brenda Schoepp
Owner, cattle and equine rescue farm

President and CEO, BEEFLINK and Brenda Schoepp & Associates

Rimbey, Alberta
Appointed February 10, 2013

Jason Skinner, M.Sc., P.Ag.
CEO, NorthWest Terminal Ltd.

Wilkie, Saskatchewan
Appointed February 12, 2009
Reappointed March 1, 2012

*Full biographies are available at www.fcc.ca. At time of publication, one director position was vacant

Executive Management Team

Greg Stewart, P.Ag., C.Dir.
President and Chief Executive Officer

Rick Hoffman, CMA, MBA
Executive VP and Chief Financial Officer

Rémi Lemoine, MBA, CCP
Executive VP and Chief Operating Officer

Michael Hoffort, P.Ag.
Executive VP and Chief Risk Officer*

Lyndon Carlson, P.Ag.
Senior VP, Marketing

Kellie Garrett, MA, MC, ICD.D
Senior VP, Strategy, Knowledge and Reputation**

Greg Honey
Senior VP, Human Resources

Paul MacDonald
Senior VP and Chief Information Officer

Greg Willner
Senior VP, Governance, Legal and Stakeholder Management***

FCC has attracted a senior team of professionals with diverse talents and experience. Our Executive Management Team (EMT) members are sought after as best practice leaders in their professions, and they actively volunteer in their communities. Each EMT member believes that a culture characterized by open communication and trust results in engaged employees who forge great relationships with customers.

EMT is responsible for business results and corporate decision-making, including the strategic vision, investment strategy, allocation of enterprise resources and resolution of major strategic issues.

All executives, with the exception of the President and CEO, are paid within salary ranges and compensation policies approved by the FCC Board of Directors. The Governor in Council establishes the President and CEO's compensation. All executives receive a variable pay-at-risk component linked to the performance of the corporation, division and individual. In 2012-13, the salary range for the President and CEO was set at $290,700 to $341,900. The salary range for Executive Vice-Presidents was $185,245 to $335,980. The salary range for Senior Vice-Presidents was $156,895 to $239,955.

*Michael Hoffort, formerly Senior VP, Portfolio and Credit Risk, was promoted to Executive VP and Chief Risk Officer effective July 1, 2013.

**Congratulations to Kellie Garrett on her retirement effective July 26, 2013. Her outstanding leadership was instrumental in transforming the organization's business strategy and advancing FCC's image and reputation management.

***Greg Willner, formerly General Council and Corporate Secretary, was promoted to Senior VP, Governance, Legal and Stakeholder Management, effective July 1, 2013.

Corporate social responsibility

At FCC, we take corporate social responsibility seriously. It's part of our corporate vision and guides how we operate.

We give back to the communities where our customers and employees live and work, strive to reduce our environmental impact and contribute to the success of the Canadian agriculture industry.

Being socially responsible is important to our customers, employees, communities and the Government of Canada. We're committed to conducting business in a responsible and sustainable manner and being accountable to our stakeholders through sound corporate governance practices.

At FCC, our corporate social responsibility framework includes five focus areas.

Agriculture and food

We support the development of a sustainable, competitive and innovative Canadian agriculture industry. We do this by providing knowledge and education and by supporting initiatives and forming partnerships that advance the business of agriculture.

FCC knows that supporting young people in agriculture is key to a strong and vibrant industry. In 2012-13, we lent a record-breaking $2.32 billion to Canadian producers under the age of 40. We also launched a new $500 million Young Farmer Loan program that enables young farmers to purchase or improve farmland and buildings. The new loan includes features and options that support the long-term success of young farmers.

Community

We foster strong and vibrant communities where our customers and employees live and work, with a focus on rural Canada.

The FCC AgriSpirit Fund provides $1 million each year to help make life better for people in rural communities. Since 2004, more than $6.5 million has been provided for capital projects, such as these in 2012-13:

- Dalum Fire Protection Association, Drumheller, Alberta – $25,000 to purchase a fire truck.
- Miramichi Regional Hospital Foundation, Miramichi, New Brunswick – $10,000 to purchase state-of-the-art equipment to treat pulmonary diseases.

Customers

We focus on primary producers as well as suppliers and processors along the agriculture value chain. We provide our customers with flexible, competitively priced financing, insurance, software, learning programs and other business services.

The FCC Ag Crisis Fund helps employees request support for individual customers facing difficult times, such as a natural disaster, serious illness, fire or farm accident. Since 2005, FCC has supported more than 800 customers through the fund. Here are a few comments from 2012-13 FCC Ag Crisis Fund recipients:

- "We are humbled by the generosity you have shown us. Your support to help us meet our basic needs speaks volumes about your integrity and we want to encourage you to keep blessing others in need."
- "Thank you for thinking of us and going above and beyond in helping us during these difficult times. Your kindness is appreciated. We have never experienced such heartwarming support."

Employees

We foster a culture of accountability, partnership and diversity – and deliver an exceptional employee experience.

Each year, FCC asks employees to take part in an employee opinion survey conducted by Aon Hewitt. Over the past several years, FCC has sustained an employee engagement score of 80 per cent or higher. As a result, FCC has ranked in the top 10 on Aon Hewitt's Best Employers in Canada list for the last seven years.

Our success in building engagement has a lot to do with listening carefully to our employees. We believe it is not enough to simply ask employees to complete a survey. FCC has a structured process for analyzing the survey results and supporting leaders across the corporation in discussing the results with their teams. We expect every leader to develop an action plan to ensure that employees feel heard and their concerns are addressed. This kind of deliberate approach to creating an exceptional employee experience is the key to sustaining a level of engagement, year after year, that sets FCC apart.

Environment

We improve our environmental performance and support the industry with tools and knowledge to do the same.

For example: each year, FCC Management Software partners with the Canadian Horticultural Council (CHC) to host a series of workshops across Canada targeted at fruit and vegetable growers and packers. The purpose of these workshops is to increase awareness of the CanadaGAP (Good Agricultural Practices) food safety/traceability program and requirements, and share some practical tools about record-keeping and audits. Thirteen workshops were held across Canada in 2012-13.

FCC corporate social responsibility report

Each fall, FCC issues a corporate social responsibility report that measures our performance for the past fiscal year. The report is prepared using the Global Reporting Initiative (GRI) G3 Sustainability Reporting Guidelines. GRI is a non-profit organization that promotes economic sustainability and provides a comprehensive sustainability reporting framework that's widely used around the world.

The 2011-12 FCC Corporate Social Responsibility Report is available at www.fcc.ca/csrreport.

The 2012-13 FCC Corporate Social Responsibility Report will be available in the fall of 2013.

Management's discussion and analysis

Caution regarding forward-looking statements

This management's discussion and analysis (MD&A) includes forward-looking financial information based on certain assumptions that reflect management's planned course of action with the most probable set of economic conditions. By their nature, assumptions are subject to inherent risks and uncertainties. There is significant risk that actual results may vary and that the differences may be material. Some factors that could cause such differences include changes in general economic and market conditions, including, but not limited to, interest rates.

Basis of preparation of financial information

FCC's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial information included in the MD&A is derived either directly from FCC's consolidated IFRS financial statements or from information FCC has used to prepare them. FCC has used the IFRS Practice Statement Management Commentary and the accompanying Basis for Conclusions document as guides for preparing its MD&A. The MD&A is intended to be read in conjunction with the March 31, 2013, Consolidated Financial Statements and the corporate plan documents.

Industry overview

FCC operates in the complex agriculture and finance industries, both of which are shaped by market forces and global trends.

Demographics throughout the world are changing. In 2012, the global population reached seven billion; by 2050, it is expected to surpass nine billion. Populations are growing significantly in developing countries and aging in western nations. As incomes in developing countries rise, diets shift and consumers demand more meat and dairy products. In western developed nations, scrutiny and focus is being placed on food production – including nutrition, land and water use, and animal welfare.

Concerns about the environment and future energy needs are fuelling alternative uses for agriculture products, contributing to increased demand and heightening awareness about agriculture via mainstream and social media. Although global demand for agri-food products is rising, primary producers and agribusiness operators need to be prepared for volatility in financial, commodity and consumer markets.

Feeding the growing population using the limited resources of the planet will be a challenge, but it also creates many opportunities for Canadian agriculture. Producers and agribusiness operators are harnessing the power of marketing, innovation, efficiency and technology to capitalize on these opportunities. The shift in food preferences in the domestic market is also opening new market segments for Canadian agribusinesses.

Key economic indicators

Current world economic conditions – highlighted by sovereign debt concerns in Europe, slow employment growth and fiscal issues in the United States, and continued political tensions in the Middle East – are affecting agri-food supply chains in Canada. Another important driver of agriculture markets in recent years has been income growth in emerging markets. As economic struggles in developed markets lower their growth prospects, the demand for food is growing in emerging markets. With these changes, it is in the best interests of Canadian producers to continue seeing economic growth in emerging markets.

The International Monetary Fund (IMF) forecasts that world economic growth will be slightly stronger in 2013 than in 2012, with below-average growth throughout most of the western world and rapid growth in the emerging world.[1]

United States job growth remains slow. At the current pace, it will take until 2015 to regain the employment level reached before the 2008-09 recession. The housing market's apparent stabilization after years of declining prices should positively affect consumer wealth and spending. The U.S. government is running a large deficit and national debt continues to climb. The challenge for the U.S. government is to lower the deficit fast enough to reassure financial markets while sustaining the fragile economic expansion.

Europe's debt crisis remains contained within its borders. Government austerity measures have alleviated concerns about the capacity of some countries to meet their debt obligations. However, these same measures have contributed to recessions in many European Union (EU) member countries. Unemployment in the eurozone hit a record high of 11.8% in November 2012.[2] The IMF projects the eurozone economy will grow at a rate of 0.2% in 2013.

While there have been considerable efforts recently to diversify Canadian exports, Canadian businesses still rely greatly on the United States. Slow economic recovery in the developed world is hindering the expansion of Canada's export-dependent economy.

Meanwhile, economic growth in emerging economies is fuelling world economic growth. The expansion of the middle class in Southeast Asia has resulted in consumers spending more of their additional income on food. As demand for agriculture and agri-food products continually evolves, Canadian agriculture must adapt to take advantage of opportunities and remain competitive in the marketplace.

Strong export markets, especially for commodities and natural resources, have led to a strong Canadian dollar.

[1] World Economic Outlook, October 2012, Coping with High Debt and Sluggish Growth. International Monetary Fund.
[2] Eurostat, Unemployment Rate, Monthly Average by sex and age group (%).

The long-term outlook for Canadian currency is good, despite economic uncertainty and challenges throughout the world. During the first three quarters of 2012, Canada's gross domestic product (GDP) grew at an annualized average rate of 1.2%.[3]

For more than 10 years, Canadian consumer debt has increased. As consumers start paying down debt, the ratio of debt to assets should improve. Given world economic struggles and slower consumer and government spending at home, business investments will determine much of the Canadian economy's growth in the short term. The Bank of Canada forecasts a 2% increase in Canadian GDP in 2013.[4]

The Canadian economy is faring well on a number of fronts. According to the World Economic Forum, Canada's banking system is the strongest in the world. Unemployment remains lower than in other industrialized countries and the federal government is on track to balance its budget by 2016. The Bank of Canada's historically low overnight interest rate is stimulating the economy, and it appears that interest rates will remain low for the foreseeable future due to low inflationary pressures in Canada and an uncertain outlook for the world economy.

Agriculture industry overview

FCC has a diversified portfolio and an in-depth understanding of agriculture enterprises. The corporation lends to a wide variety of agriculture sectors, including cattle, dairy, hogs, poultry, grains and oilseeds, greenhouses, and agribusiness and agri-food, and considers the factors that influence the long-term prospects of each sector, including asset values, farm debt and trade.

Asset values

Farm asset values have steadily increased as a result of rising land values driven by a strong agriculture economy, growing world food demand and higher commodity prices.

Canadian farmland values have risen steadily over the past decade, driven by low real interest rates and strong crop receipts. Farmland values increased an average of 8.6% during the first half of 2012, following average increases of 6.9% and 7.4% in the previous six-month reporting periods.

The last time the average value decreased was by 0.6% in 2000.

The current environment makes it even more important for buyers of farmland to ensure their budgets have room to flex should commodity prices fall back from current highs or interest rates rise to more traditional levels.

Farm debt

As farm asset values rose, so did total Canadian farm debt; it reached nearly $70 billion in 2011.[5] Debt has increased at an average annual rate of 6% since 1995, pushed by declining interest rates and intensifying pressure to remain competitive and grow productivity in a more globalized world.

Aside from the impact of inflation, the remaining increase in average farm debt has come mostly from farms in supply-managed sectors, with annual gross receipts of more than $500,000. Farm debt is expected to continue to increase, but at a slower pace than in recent years. Strong crop receipts are bolstering optimism and leading to investments in land and machinery, while low financing costs help farm businesses capture economies of scale and increase productivity.

Trade

The landscape of Canada's international trade agreements will continue to evolve. The U.S. market accounted for 49% of Canadian agriculture and agri-food exports in 2011, compared to 63% in 2001.[6] With slow growth in the United States and strong growth in emerging markets such as China and India, Canada is likely to further diversify its trade away from the U.S. market.

Canada is currently negotiating trade agreements with India, South Korea, Japan and the EU, among others, and has also joined Trans-Pacific Partnership talks. Trade negotiations are a gateway to expand export opportunities. Lower trade barriers mean greater access to foreign markets and possible growth of Canadian market share.

[3] Statistics Canada, Table 380-0064 – *Gross domestic product, expenditure-based (Percentage Change (period-to-period)), quarterly (dollars unless otherwise noted)*, CANSIM (database).
[4] Bank of Canada, Monetary Policy Report, January 2013.
[5] Statistics Canada, Table 002-0008 – *Farm debt outstanding, classified by lender, annual (dollars)*, CANSIM (database).
[6] Statistics Canada, based on NAICS Codes.

Gaining access to new markets gives Canadian agriculture producers a competitive advantage, as developing countries generally have high tariffs on agriculture products. Increased access to mature markets like Japan and Europe could also result in opportunities. However, trade negotiations will likely increase competition in Canada's domestic markets, especially in supply-managed sectors.

Overall primary agriculture profitability

In 2012, severe drought conditions in much of the United States affected both livestock and crop producers. Canadian crop and oilseed operations benefited from high prices, while hog and cattle producers were forced to manage high feed costs.

Throughout the first three quarters of 2012, total farm cash receipts (crop and livestock revenues, plus program payments) increased by 6.1%, following an 11.9% increase in 2011. Farm cash receipts were higher in all provinces except New Brunswick, which experienced a 7.5% decrease over the first three quarters compared to the previous year. Alberta had the largest increase at 13%.

Overall input costs rose by 5.4% in the second quarter of 2012, compared to the same quarter the previous year.[7] Fertilizer and commercial feed costs saw increases of 13.8% and 9.8%, respectively. Livestock feed costs should decline in 2013, as crop prices are expected to drop from 2012 levels, according to futures markets. A crop price reduction would imply a decline in crop producers' profit margins over the next 12 months, while offering relief to livestock producers. Lower feed prices and projections of above-average livestock prices offer a positive outlook for the livestock industry over the medium term.

Energy costs are vitally important to the agriculture industry. The U.S. Energy Information Administration predicts crude oil prices will decline in 2013 and 2014. Natural gas prices are projected to increase over the next two years, although they will remain low compared to the highs of 2007-08 due to the continued expansion of natural gas production from shale fracking.[8]

Sector overview

Grains and oilseeds

In 2012, grain and oilseed yields and quality varied across Canada. Yields in Western Canada were below expectations, with barley and canola yields down 12% and 21% respectively from the previous year. Barley production remained relatively unchanged and canola production dropped 9%. Despite dry weather conditions in 2012, yields in Ontario and Quebec were, on average, above the previous year's levels.

Corn and soybean inventory levels in the United States are near record lows.[9] Corn, soybean, canola and wheat prices for the 2012-13 marketing year should be well above their historical averages. Aside from seasonal fluctuations, fertilizer prices are expected to stay relatively stable into 2014. Despite expected low natural gas prices, strong demand from crop producers is keeping prices high compared to the historical average.

According to the most recent Agriculture and Agri-Food Canada (AAFC) Medium Term Outlook for Canadian Agriculture and the United States Department of Agriculture (USDA) Agricultural Projections to 2022, grains and oilseeds prices will be slightly lower than current highs, but will remain historically high over the next 10 years. This will be driven by increased demand from developing countries such as China for coarse grains and oilseeds. Domestic livestock producers, biofuel manufacturers and vegetable oil crushers also will contribute to demand.

Horticulture

Greenhouse operations generally recorded higher profit margins in 2012 for both floriculture and vegetable production. The increase in profits was partly due to low natural gas prices, which is a major input in the industry. Average natural gas prices for November 2012 were 40% lower than the previous year.[10]

Despite the rather positive results for the sector, competitive pressures in some specific sectors emerged. For example, a large increase in the U.S. tomato supply and Mexican imports, combined with the strong Canadian dollar, pushed down Canadian tomato prices and reduced the profitability of some Canadian greenhouse growers.

[7] Statistics Canada, *Table 328-0015 – Farm input price index, quarterly (index, 2002=100)*, CANSIM (database).
[8] U.S. Energy Information Administration, AEO 2013 Early Release Overview, December 2012.
[9] USDA World Agriculture Supply Demand Estimate (WASDE), October 2012.
[10] Statistics and Data Development Branch, Economics and Competitiveness Division, Alberta Agriculture and Rural Development.

To offset competitive pressures, producers are adopting new, more efficient technologies, such as sophisticated equipment that reduces energy and water consumption. The pace of technology adoption and expansion in the greenhouse sector will continue to depend on energy prices.

Cattle

The Canadian and American cattle industries are closely integrated due to strong trade linkages and logistics. Since the U.S. industry is significantly larger, trends in Canada's cattle industry are largely driven by U.S. trends.

Cattle inventories in both countries declined between 2005 and 2011. In the United States, cattle inventories have continued to decline due to back-to-back droughts in 2011 and 2012, which limited pasture and feed availability. Meanwhile, Canadian cattle numbers remained steady in 2012. Increased heifer retention in Canada suggests that the industry should slowly start to grow. Lower inventories combined with increased world demand for beef have increased cattle prices and, in particular, calf prices, relative to their previous 10-year average. Cattle futures suggest strong prices throughout 2013 and heading into 2014.

In 2012, the World Trade Organization (WTO) ruled that U.S. Country of Origin Labelling (COOL) requirements discriminated against Canadian and Mexican beef and pork. The United States recently proposed amendments to its COOL legislation to comply with the WTO ruling. Depending on the result of further consultations between Canadian and American governments and industry stakeholders, the issue may evolve towards Canada imposing retaliation measures on U.S. exports.

Despite challenges posed by COOL, live cattle exports to the United States increased 19% in 2012, following a 35% decline in 2011. The number of cattle slaughtered in federally inspected establishments was down in 2012, with most of the decline occurring in Western Canada. Some of the decline in slaughter and increase in exports can be attributed to the temporary closure of the XL Foods Inc. processing plant in Brooks, Alta. Per capita beef consumption in Canada has also been declining for more than 10 years.[11] Canadian beef producers will remain dependent on export markets for the foreseeable future.

Dairy

Canada's supply-managed dairy sector is expected to remain profitable. Each year, the Canadian Dairy Commission reviews and, if necessary, adjusts dairy support prices. Higher feed costs have resulted in higher support prices for skim milk powder and butter. Canadian dairy products are primarily sold domestically; only a fraction of production is sold in foreign markets.

The AAFC Medium Term Outlook for Canadian Agriculture (2012) forecasts that per capita consumption of fluid milk, butter and ice cream will decrease over the next 10 years, while per capita yogurt consumption will continue to increase. Recent trade negotiations have been accompanied by heightened media coverage about the future of supply management. At this point, future changes to domestic marketing institutions are speculative.

Poultry

Supply management in the poultry sector ensures that producers obtain a price above their cost of production. Production increases closely match changes in domestic consumption, as little production is sold in foreign markets. Over the next 10 years, AAFC projects that the consumption of Canadian chicken will increase at a rate of 1.5% per year, although per capita consumption is expected to be relatively stable.

Per capita consumption of eggs is also projected to remain stable. Animal welfare concerns and the resulting industry response are affecting production methods, and supply chains are demanding specific aviary systems from producers.

Hogs

The past several years have been challenging for Canadian hog producers. Upward pressure on feed prices due to weather conditions reduced profitability in this sector. Adding to the challenge, hog prices declined by 20% to 30% during the summer of 2012, with losses ranging from $30 to $50/market hog depending upon the structure of the operation.[12] Producers who grow their own feed grains or have diversified revenue from operations will withstand the current situation better than those who rely on purchasing feed.

[11] Statistics Canada, Table 002-0011 – Food available in Canada, annual (kilograms per person, per year unless otherwise noted), CANSIM (database).
[12] Agriculture and Agri-Food Canada – Economic and Market Information – Red Meat Market Information.

Despite economic challenges, hog inventories were 1.5% higher on July 1, 2012, compared to July 1, 2011.[13] Profit margins are expected to improve in 2013.

Animal welfare concerns and the resulting industry response are impacting production methods, and hog gestation stalls may be replaced by group housing in the future.

As the world's population and incomes grow, demand for higher-value proteins increases. This trend is expected to continue in the short term, as emerging economies continue to grow the fastest.

Agribusiness and agri-food

As economies, including Canada's, continue to improve, consumer demand for value-added products slowly increases, creating more opportunities for food manufacturers. Due to a strong performance in the farm sector, agribusinesses that supply inputs to primary agriculture have experienced strong demand for their products.

Canadian agribusinesses are also dependent on the strength of demand in foreign markets. According to Industry Canada data, 67% of Canadian agri-food exports are destined for the U.S. market. This isn't surprising, given its close geographic proximity. For example, in 2011, over 50% of agri-food exports to the United States were from Ontario and Quebec – provinces that enjoy strong logistical advantages to export to the U.S. market.

Canadian manufacturing firms have lagged behind other developed countries in productivity growth.[14] The strong Canadian dollar continues to put pressure on the competitiveness of Canadian food processors. As a result, the Canadian trade balance of food and beverages has worsened over the past seven years. Product and process innovations will be needed to fight off a decline in relative labour productivity and the impacts of a stronger Canadian dollar. The grain handling industry is evolving following changes to wheat and barley marketing regulations.

Current and potential impacts for FCC

FCC has experienced its 20th consecutive year of portfolio growth. Revenue and administration expenses have grown in relation to FCC product and service offerings and its overall loan portfolio. FCC understands the importance of prudent budget practices and sustained financial viability through all economic cycles in order to support customers through good and challenging times. Maintaining strong customer satisfaction and employee engagement is important to the corporation's continued success in serving the agriculture and agri-food industry.

FCC remains financially strong. Along with $4,178.9 million in equity and loan loss reserves, the corporation has a low debt-to-equity ratio and high quality risk management practices. FCC's portfolio is diversified by enterprise and geography because the corporation finances customers involved in all areas of agriculture across Canada, which reduces risk.

Continued complexity in the agriculture industry translates into a need for enhanced knowledge, technical skills and competencies on the part of customers and FCC employees. FCC offers employees extensive access to sector and market knowledge and offers learning programs and publications free of charge to customers and non-customers.

Producers and agribusiness operators have a strong impetus for innovation and growth, and FCC will continue to provide the support required for success. Agility is a critical attribute for any business operating in this environment. FCC's unique connection to customers, industry, government, academia and business will help ensure that it is attuned to evolving needs, risks and opportunities.

FCC is beginning the next fiscal year in a strong financial position. It will continue to closely monitor external and internal financial trends, assess implications and create proactive strategies to address them. Risk levels will be diligently monitored to ensure that they continue to be within acceptable tolerances.

FCC's commitment to Canadian agriculture is unwavering. The corporation will continue to monitor and respond to economic conditions as needed to achieve its objectives and maintain financial strength.

[13] Statistics Canada, Table 003-0004 – Number of hogs on farms at end of quarter, quarterly (head), CANSIM (database).
[14] Bank of Canada's Monetary Policy Report, July 2012.

Strategic overview

FCC is advancing the business of agriculture by providing financing, insurance, software, learning programs and other business services to producers and agribusiness and agri-food operations. FCC is financially strong and stable, and serves the industry through all cycles. Our employees are passionate about agriculture and committed to the success of our customers and the industry.

FCC's strategic direction is aligned with the Government of Canada and the 2012 Statement of Priorities received from the Minister of Agriculture and Agri-Food.

Corporate strategy map

FCC uses a corporate scorecard to monitor and measure progress against its corporate strategy. To achieve its vision and deliver on its mission, FCC has developed objectives and strategies that are categorized under four strategic themes:

- financial and risk management
- customer experience
- efficiency and execution
- employee experience

The FCC corporate strategy map illustrates how the 12 five-year strategic objectives within the strategic themes contribute to achieving the FCC vision and mission. The employee experience theme and its related objectives provide the foundation for the other three themes and their objectives.

Vision

The full agriculture value chain believes FCC is "advancing the business of agriculture" by providing financial products, tools and knowledge tailored to producers and agribusiness operators.

Our customers are advocates of FCC and can't imagine doing business without us.

We are a strong corporate citizen and an employer of choice everywhere we operate.

Our focus on continuous improvement makes it easy for customers and employees to do business.

We are financially viable and invest significantly in the agriculture and agri-food industry.

Mission

To enhance rural Canada by providing specialized and personalized business and financial solutions to farm families and agribusiness.*

Financial and risk management

- Enhance financial management
- Increase maturity of enterprise risk management (ERM), including internal control framework
- Strengthen and leverage FCC's reputation with all stakeholders

Customer experience

- Deliver an extraordinary customer experience
- Demonstrate commitment to the agriculture and agri-food industry, with a particular focus on producers and young farmers
- Promote agriculture as a dynamic industry that is important to Canada
- Expand FCC's ability to provide customers with leading-edge knowledge

Efficiency and execution

- Optimize how FCC conducts business
- Expand channel delivery

Employee experience

- Provide an exceptional employee experience
- Strengthen leadership capabilities
- Expand and enhance employee knowledge

Strategic themes | Five-year objectives

*This is an abridged version of the FCC mission. A complete version is available at www.fcc.ca.

Report on corporate performance

Financial and risk management

Critical outcome:

In 2020, FCC has a diversified agriculture, agribusiness and agri-food portfolio. The corporation has remained financially viable and self-sustaining with a strong balance sheet and a return on equity (ROE) of greater than or equal to 12%.

Summary of results:

FCC has remained financially sustainable. The portfolio grew to $25.1 billion in 2012-13 and profitability remains strong. FCC has a strong balance sheet and an ROE of 16.4%.

Strategic objectives	Performance measures	2011-12		2012-13		Comments	2013-14	2014-15
		Target	Result	Target	Result		Target	Target
Enhance financial management	Net income	$355.8 million	$565.6 million*	$445.0 million	$513.4 million	Exceeded. Primarily due to higher than target net interest income and lower than target provision for credit losses.	$466.8 million	$481.2 million
	Return on equity	13.9%	20.9%*	13.9%	16.4%	Exceeded. Due to higher than target net income.	13.0%	12.0%
	Debt-to-equity ratio	6.9:1	7.1:1*	6.2:1	6.7:1	Not achieved. Increased borrowings were required to support higher than planned portfolio growth.	Measure discontinued and replaced with the capital adequacy measure[15]	Measure discontinued and replaced with the capital adequacy measure
	Portfolio growth	3.3%	8.4%	6.1%	8.3%	Exceeded. Due to higher than target net disbursements.	Measure discontinued	Measure discontinued
	Risk scoring and pricing system (RSPS) score for primary production stated as points[16]	Greater than or equal to 770 points[17]	804 points	Greater than or equal to 790 points	808 points	Achieved	Measure discontinued and replaced with the capital adequacy measure	Measure discontinued and replaced with the capital adequacy measure

*The historical data has been restated due to prior period adjustments.

[15] Capital adequacy measure: greater than or equal to 100%. This measure tracks available capital over required capital. In the first two years, only credit capital will be used in the denominator. It will be extended to include other risk types in years following.
[16] The RSPS model considers three principal sets of risk predictors that model the risk of a loan defaulting. Refer to glossary for definition.
[17] Note: 2011-12 score was for the entire portfolio (primary production and agribusiness and agri-food).

<table>
<tr><th rowspan="2">Strategic objectives</th><th rowspan="2">Performance measures</th><th colspan="2">2011-12</th><th colspan="2">2012-13</th><th rowspan="2">Comments</th><th>2013-14</th><th>2014-15</th></tr>
<tr><th>Target</th><th>Result</th><th>Target</th><th>Result</th><th>Target</th><th>Target</th></tr>
<tr><td rowspan="2">Enhance financial management</td><td>Risk scoring and pricing system (RSPS) score for agribusiness and agri-food stated as points</td><td>Greater than or equal to 770 points</td><td>804 points</td><td>Greater than or equal to 750 points</td><td>791 points</td><td>Achieved</td><td>Measure discontinued and replaced with the capital adequacy measure</td><td>Measure discontinued and replaced with the capital adequacy measure</td></tr>
<tr><td colspan="8">In 2012-13, FCC developed its capital management framework. FCC implemented systems and processes to assess capital adequacy using concepts from the Basel Committee on Banking. Once completely actualized, the capital management framework will allow FCC to assess its capital needs on a risk-adjusted basis. Measurement of capital adequacy will begin in 2013-14. A new measure and reporting for capital adequacy has been developed.</td></tr>
<tr><td rowspan="2">Increase maturity of enterprise risk management (ERM), including internal control framework</td><td>ERM maturity measure[18]</td><td colspan="2">Create measure and baseline ERM</td><td>1.8</td><td>1.8</td><td>Achieved</td><td>2.9</td><td>3.4</td></tr>
<tr><td colspan="8">In 2012-13, FCC continued implementing its ERM framework. FCC adopted an ERM maturity target based on KPMG's assessment methodology and enhanced governance of enterprise risk through the development of a risk appetite and tolerance statement. FCC is in the final stages of implementing its internal control framework policy.

In 2012-13, FCC underwent a review by the Office of the Superintendent of Financial Institutions (OSFI). OSFI's guidance will be used to further enhance and strengthen FCC's risk management practices.</td></tr>
<tr><td rowspan="3">Strengthen and leverage FCC's reputation with all stakeholders</td><td rowspan="2">Media favourability index[19]</td><td>7</td><td>13</td><td>7</td><td>11</td><td rowspan="2">Exceeded</td><td>7</td><td>7</td></tr>
<tr><td colspan="4">Points above the global average for financial institutions</td><td colspan="2">Points above the global average for financial institutions</td></tr>
<tr><td colspan="8">FCC's national reputation program is a comprehensive, centralized and consistent approach to reputation management. In 2012-13, FCC designed software for recording all stakeholder interactions to better manage stakeholder relations across the organization. FCC social media governance and processes were established along with a social media policy. FCC's social media channels gathered support and followers over the year including 2,699 Facebook likes, 2,373 followers on Twitter, and 9,156 YouTube views. FCC published its second corporate social responsibility report in October.

The full report is available at www.fcc-fac.ca/en/About Us/Responsibility/csr_full_report_e.asp</td></tr>
</table>

[18] ERM maturity measure: KPMG Model: the calculation is based on advances in ERM maturity that would be achieved by implementing recommendations from the KPMG ERM Maturity Review conducted in 2012.

[19] Media favourability index: Leger Marketing measures FCC favourability quarterly using numbers, qualitative factors and other criteria. Performance is relative to the global average for financial institutions.

Customer experience

Critical outcome:

In 2020, FCC continues to deliver an extraordinary experience to customers. As a result, the customer experience index score indicates that two out of three customers (65%) rate their experience with FCC as five out of five.

Summary of results:

FCC's strong emphasis on how employees deliver service has led to rising customer experience scores. In 2012-13, the score was 64.1%.

<table>
<tr><th rowspan="2">Strategic objectives</th><th rowspan="2">Performance measures</th><th colspan="2">2011-12</th><th colspan="2">2012-13</th><th rowspan="2">Comments</th><th>2013-14</th><th>2014-15</th></tr>
<tr><th>Target</th><th>Result</th><th>Target</th><th>Result</th><th>Target</th><th>Target</th></tr>
<tr><td rowspan="2">Deliver an extraordinary customer experience</td><td>Customer experience index[20]</td><td>60.0%</td><td>63.6%</td><td>61.0%</td><td>64.1%</td><td>Exceeded</td><td>61.5%</td><td>62.0%</td></tr>
<tr><td colspan="8">In 2012-13, FCC refreshed its customer experience strategy to gain a deeper understanding of key differentiators that customers desire from FCC. This strategy will serve as the foundation for updates to the customer experience at FCC. Results from surveys conducted were used to identify opportunities for service improvements and customer experience.</td></tr>
<tr><td rowspan="3">Demonstrate commitment to the agriculture and agri-food industry, with a particular focus on producers and young farmers</td><td>Total lending to young farmers</td><td>$1.48 billion</td><td>$1.92 billion</td><td>$1.74 billion</td><td>$2.32 billion</td><td>Exceeded</td><td>$2.10 billion</td><td>$2.20 billion</td></tr>
<tr><td>Number of learning program participants</td><td>10,500</td><td>11,457</td><td>11,500</td><td>12,960</td><td>Exceeded</td><td>Measure discontinued</td><td>Measure discontinued</td></tr>
<tr><td colspan="8">In April 2012, Agriculture and Agri-Food Minister Gerry Ritz and FCC President and CEO Greg Stewart launched a new Young Farmer Loan aimed at farmers under 40 years of age. As of March 31, 2013, approvals of the young farmer loans totalled $2.32 billion. FCC provided support to AAFC as it assessed the pressures facing hog producers and also provided input on several aspects of the Growing Forward 2 policy framework. FCC also worked with other industry associations such as the Canadian Agri-Policy Food Institute, the B.C. Ministry of Agriculture and the George Morris Centre.

Since 2006, FCC has offered a venture capital fund to Canadian agriculture to stimulate investment. In 2012-13, FCC successfully launched a new $50 million subordinated debt fund.</td></tr>
<tr><td>Promote agriculture as a dynamic industry that's important to Canada</td><td colspan="8">In 2012-13, FCC launched Agriculture More Than Ever, a multi-year campaign to improve perceptions of agriculture in Canada. Agriculture More Than Ever provides an opportunity for the industry to change perceptions. As of March 31, 2013, FCC was working with 159 official industry partners including industry associations, trade shows, media entities and government. There were 20,673 unique visitors to the Agriculture More Than Ever website. More information is available at www.agmorethanever.ca.</td></tr>
<tr><td>Expand FCC's ability to provide customers with leading-edge knowledge</td><td colspan="8">FCC works to continually enhance employee knowledge, skills and expertise to better serve its customers. In 2012-13, FCC's economic outlook was provided to more than 5,200 customers, employees and industry stakeholders at various FCC and FCC-sponsored events. In 2012-13, FCC provided approximately 260 customer packages for employees to share with customers. Custom knowledge packages are tailored to the customer or prospect with information on their industry, questions to ponder and sources for more information.</td></tr>
</table>

[20] Customer experience index: this number is derived from customer surveys in areas such as satisfaction, loyalty, advocacy, ease of doing business and service resolution.

Efficiency and execution

Critical outcome:

In 2020, FCC continues to be recognized as a highly efficient, effective and agile organization that's easy to do business with. The corporation has an efficiency ratio of 42.0% or lower.

Summary of results:

FCC's efficiency ratio increased from prior year results and is expected to increase slightly in future years (increased from 33.8 cents per dollar of revenue in 2011-12 to 37.3 cents per dollar of revenue in 2012-13); FCC consistently attains its easy-to-do-business indicators (increased from 74.0% in 2007 to 83.0% in 2013). This score exceeds the target of being greater than or equal to the average of the top 50 Canadian employers. This indicator measures how efficiently and effectively employees feel they can accomplish their work.

<table>
<tr><th rowspan="2">Strategic objectives</th><th rowspan="2">Performance measures</th><th colspan="2">2011-12</th><th colspan="2">2012-13</th><th rowspan="2">Comments</th><th>2013-14</th><th>2014-15</th></tr>
<tr><th>Target</th><th>Result</th><th>Target</th><th>Result</th><th>Target</th><th>Target</th></tr>
<tr><td rowspan="3">Optimize how FCC conducts business</td><td>Efficiency ratio[21]</td><td>41.6%</td><td>33.8%*</td><td>37.1%</td><td>37.3%</td><td>Not achieved. Target does not reflect a 2012-13 expense reclassification. Excluding this impact, the target was achieved.</td><td>38.6%</td><td>39.5%</td></tr>
<tr><td>Employee engagement index – easy-to-do-business indicators[22]</td><td>Greater than or equal to the average of the top 50 employers (2011 average: 78.0%)</td><td>83.0%</td><td>Greater than or equal to the average of the top 50 employers</td><td>83.0% (5.4% above target)</td><td>Exceeded</td><td>Greater than the average of the top 50 employers</td><td>Greater than the average of the top 50 employers</td></tr>
<tr><td colspan="8">FCC regularly challenges all areas of the corporation to find better ways to do business and meet customer expectations with respect to service delivery and speed. The most significant initiative ever undertaken by the corporation, the business process and technology transformation program, was completed and launched in 2012-13. The program will streamline and automate many processes, and support lending activities with more flexible technology. In addition, a number of initiatives to improve efficiency and save costs were implemented: the information technology outsourcing arrangement was renegotiated, the enhanced learning management system was launched and changes were made to courier services. These efficiencies will allow FCC to continue to grow, while maintaining its target ratio.</td></tr>
<tr><td>Expand channel delivery</td><td colspan="8">In 2012-13, FCC conducted channel research and outlined approaches as to how best to deliver service to customers. This research will ensure that the sales channel used by individual customers meets their needs efficiently and effectively.

FCC's e-business program will enhance FCC's online presence, deliver a redesigned public mobile presence and website, and improve partner online capabilities. Work to streamline processes in place for existing online secure customer interactions continued in 2012-13. The first release of FCC's new and updated online presence will occur in 2013-14.</td></tr>
</table>

*The historical data has been restated due to prior period adjustments.

[21] Efficiency ratio: refer to glossary for definition.

[22] Easy-to-do-business indicators include co-workers, physical work environment, resources, work processes and work tasks, as measured by the annual Aon-Hewitt Best Employers in Canada study.

Employee experience

Critical outcome:

In 2020, FCC continues to be an employer of choice with a culture that inspires employees to deliver an extraordinary customer experience. FCC's employee engagement score is greater than or equal to the average of the top 50 Canadian employers as measured by the annual Aon-Hewitt Best Employers in Canada study.

Summary of results:

FCC has already achieved the 2020 critical outcome in that employee engagement index results are greater than the average of the top 50 employers as measured by the Aon-Hewitt Best Employers in Canada study. FCC plans to sustain this performance in the future by continuing to use survey results to institute changes required to maintain this level of employee engagement.

Strategic objectives	Performance measures	2011-12 Target	2011-12 Result	2012-13 Target	2012-13 Result	Comments	2013-14 Target	2014-15 Target
Provide an exceptional employee experience	Employee engagement index[23]	Greater than or equal to the average of the top 50 employers (2011 average: 78.0%)	84.0%	Greater than or equal to the average of the top 50 employers	86.0% (7.0% above target)	Exceeded	Greater than the average of the top 50 employers	Greater than the average of the top 50 employers
	Employee engagement index - employee experience indicators[24]	Greater than or equal to the average of the top 50 employers (2011 average: 75.0%)	81.0%	Greater than or equal to the average of the top 50 employers	82.0% (6.4% above target)	Exceeded	Greater than the average of the top 50 employers	Greater than the average of the top 50 employers
	Stellar leadership enhances the employee experience by inspiring performance, developing employees and ensuring that FCC continues to run a successful business. FCC believes that a positive employee experience leads to an extraordinary customer experience. In 2012-13, FCC implemented various initiatives to deepen and strengthen employee culture. FCC redesigned all existing leadership development programs and surveyed all employees to identify culture gaps. From these gaps, a new culture refresher course was developed and will be implemented in 2013-14. All tactics identified in a diversity strategy and employment equity plan were completed. Highlights included delivery of online diversity training and an accommodation brochure to all employees, as well as development of a corporate diversity measure.[25]							

[23] Performance is measured by the annual Aon-Hewitt Best Employers in Canada study.

[24] Employee experience indicators include the average scores from the following measures: career opportunities, learning and development, intrinsic motivation, managing performance and work/life balance as measured by the annual Aon-Hewitt Best Employers in Canada study.

[25] Diversity measure: Reduce diversity gap by 12. Based on the Goal Setting Report in the Workplace Equity Information Management System of Human Resources and Skills Development Canada.

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<tr><th rowspan="2">Strategic objectives</th><th rowspan="2">Performance measures</th><th colspan="2">2011-12</th><th colspan="2">2012-13</th><th rowspan="2">Comments</th><th>2013-14</th><th>2014-15</th></tr>
<tr><th>Target</th><th>Result</th><th>Target</th><th>Result</th><th>Target</th><th>Target</th></tr>
<tr><td rowspan="2">Strengthen leadership capabilities</td><td>Leadership index[26]</td><td>Greater than the average of the top 50 employers (2011 average: 72.0%)</td><td>78.0%</td><td>Greater than the average of the top 50 employers</td><td>81.0% (9.0% above target)</td><td>Exceeded</td><td>Greater than the average of the top 50 employers</td><td>Greater than the average of the top 50 employers</td></tr>
<tr><td colspan="8">In 2012-13, FCC reviewed existing leadership development programs to ensure that they were integrated and worked well together. A new leadership program, Leadership Effectiveness, was developed and delivered to all FCC leaders. This program provided additional clarity about leadership expectations at FCC.</td></tr>
<tr><td>Expand and enhance employee knowledge</td><td colspan="8">FCC's learning strategy consists of two main components: the Lending Essentials program that includes training to develop the skills and knowledge necessary for employees to serve customers, and an initiative designed to improve employee access to specialized agriculture and financial knowledge via the intranet, Internet, collaboration tools and podcasts.

FCC has formalized knowledge competency requirements into its performance management process for customer-facing employees.</td></tr>
</table>

[26] Leadership indicators take the average score from the following drivers to calculate the leadership index score: senior leadership, manager, recognition, career opportunities and managing performance as measured by the annual Aon-Hewitt Best Employers in Canada study.

Financial performance review

Overview

As part of its strategic planning process, FCC develops a comprehensive plan that includes targeted financial measures for the coming fiscal year. In 2012-13, FCC exceeded its plan targets for most major financial measures.

In 2012-13, loans receivable growth was 8.3%, exceeding the target growth of 6.1%. The primary driver of this growth was an 8.8% increase in disbursements. The allowance for credit losses as a percentage of loans receivable decreased by 0.2% in 2012-13 to 2.5%. Increased net interest income offset the impact of cost increases resulting in an efficiency ratio of 37.3%, which was behind the 2012-13 plan target by 0.2% due to an expense reclassification.

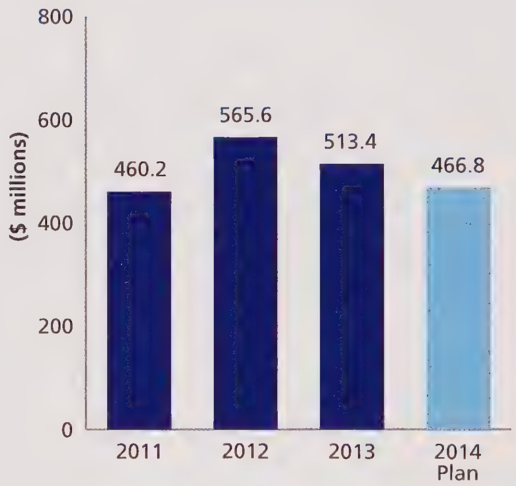
Debt to equity improved from 7.1:1 in 2011-12 to 6.7:1 in 2012-13; however, FCC did not achieve its target of 6.2:1 primarily due to increased borrowing required to support higher disbursements. FCC's return on equity was 16.4%, exceeding its target of 13.9%. This was due to net income of $513.4 million, exceeding the plan target of $445.0 million.

Consolidated operating results

Net income overview

FCC's 2012-13 net income decreased by $52.2 million from the previous fiscal year primarily due to a decrease in non-interest income, an increase in the provision for credit losses and an increase in administration expenses. These factors were partially offset by increased net interest income. Net income is projected to decrease by 9.1% in 2013-14, due mainly to a higher provision for credit losses and increased administration expenses.

Net income*

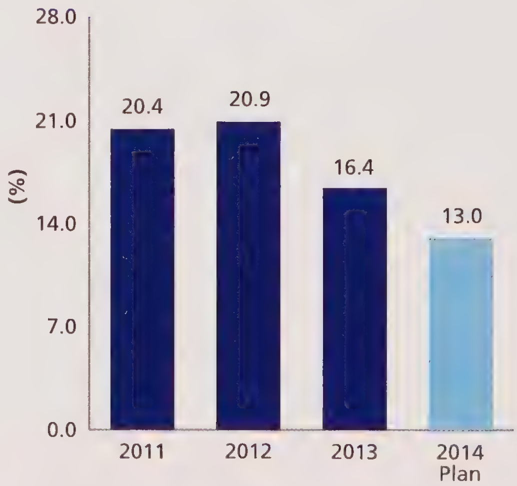


*The historical data has been restated due to prior period adjustments.

Return on equity

Return on equity decreased to 16.4% in 2012-13 from 20.9% in 2011-12 primarily due to lower net income. This was partially offset by a higher dividend. Return on equity is projected to decrease to 13.0% in 2013-14 as a result of lower net income.

Return on equity*



*The historical data has been restated due to prior period adjustments.

Net interest income and margin

Changes in net interest margin and portfolio volume are the primary causes of changes in net interest income. The following table contains historical net interest margins and interest rate spreads. Interest rate spreads are the difference between interest rates earned on interest-earning assets and interest rates paid on interest-bearing liabilities.

Net interest margin*

	2013		2012		2011	
($ millions)	Average balance	Rate	Average balance	Rate	Average balance	Rate
Earning assets:						
Fixed loan principal balance	8,601.3	4.92%	7,173.4	5.52%	6,388.1	6.06%
Variable loan principal balance	15,510.0	3.94%	14,874.8	3.95%	13,921.7	3.72%
Investments	1,078.9	1.05%	1,017.6	1.05%	995.9	0.80%
Venture capital investments	61.6	3.14%	55.6	4.33%	50.1	3.13%
Total earning assets	25,251.8	4.27%	23,121.4	4.43%	21,355.8	4.44%
Total interest-bearing liabilities	21,581.1	1.00%	19,944.8	1.11%	18,653.9	1.04%
Total interest rate spread		3.27%		3.32%		3.40%
Impact of non-interest bearing items		0.13%		0.15%		0.12%
Net interest margin		3.40%		3.47%		3.52%

*The historical data has been restated due to prior period adjustments.

Fixed interest rates in the market decreased over the past few years due to slow global economic recovery. As a result, fixed lending rates continued to decrease in 2012-13 as new and renewing loans were added to the portfolio at lower rates. Variable interest rates remained similar to 2011-12 due to the fact that the prime rates in Canada remained unchanged throughout 2012-13. Venture capital investment rates declined in 2012-13 due to a shift in portfolio composition. The portfolio has progressed from a mix of revenue-generating debt investments and mature equity positions to less mature equity related positions that are expected to provide future returns.

In 2012-13, interest rates on the corporation's interest-bearing liabilities were lower than 2011-12 but did not decrease by the same magnitude as the rates on interest-bearing assets. Lower interest rates on new long-term funding was the main reason for the decrease. Also contributing to the decrease was the $10.9 million cost incurred in 2011-12 related to capital market debt repurchased. These decreases were partly offset by the increase in short-term funding rates over the prior year as the funding yield curve supporting variable rate loans increased slightly.

The following table outlines the year-over-year increases to net interest income, including those caused by changes in portfolio volume and net interest margin.

Net interest income and margin*

($ millions)	2014 Plan	2013	2012	2011
Net interest income	887.9	861.4	802.4	753.8
Average total assets	26,679.9	25,310.7	23,133.5	21,423.7
Net interest margin (%)	3.33	3.40	3.47	3.52
Year-over-year change in net interest income due to:				
Increases in volume	49.0	71.3	58.8	–**
Changes in margin	(22.5)	(12.3)	(10.2)	–
Total change to net interest income	26.5	59.0	48.6	–

*The historical data has been restated due to prior period adjustments.
**Data from 2011 is not comparable due to the transition from Canadian GAAP (Generally Accepted Accounting Principles) to IFRS (International Financial Reporting Standards).

FCC's net interest income increased by 7.4% in 2012-13 to $861.4 million. Average total assets increased by 9.4% to $25,310.7 million due to increased loans receivable. Net interest margin decreased by 0.07% due to lower lending margins resulting from a narrowing interest rate spread. Net interest margin is expected to decrease to 3.33% in 2013-14 due to borrowing cost increases on variable-rate assets and a continued low fixed-rate interest environment, both of which are compressing the interest rate spread.

Non-interest income

FCC generated other income of $15.6 million through FCC Ventures, FCC Insurance, and FCC Management Software. This was down $35.5 million from the previous year primarily due to a $34.0 million gain on the sale of a venture capital investment in 2011-12. FCC anticipates that further gains of approximately $5.4 million will be realized in the future, subject to the fulfilment of certain conditions of the sale agreement. Non-interest income is expected to be $19.0 million in 2013-14.

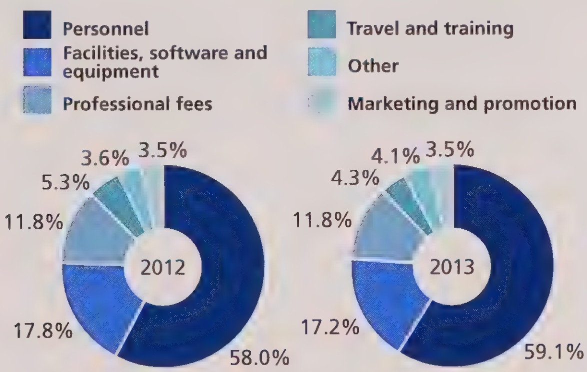
Administration expense

FCC's administration expenses represent the costs associated with day-to-day operations and costs related to specific projects that support operations and the achievement of strategic objectives. The efficiency ratio measures the percentage of income earned that is spent on business operations. A low efficiency ratio indicates efficient use of corporate resources. FCC's efficiency ratio increased from 33.8% in 2011-12 to 37.3% in 2012-13, due primarily to increased administration expenses, compounded by lower non-interest income.

The administration expense increase is primarily due to salaries and benefits related to additional resources required to support business growth and strategic initiatives. Expenses related to FCC's defined benefit pension plan increased significantly due to higher current service cost resulting from increased plan membership combined with a decrease in the discount rate used to determine benefits costs.

As indicated in the chart below, personnel expenses were the largest contributor to administration expenses in 2012-13, and represented 59.1% of total administration expenses.

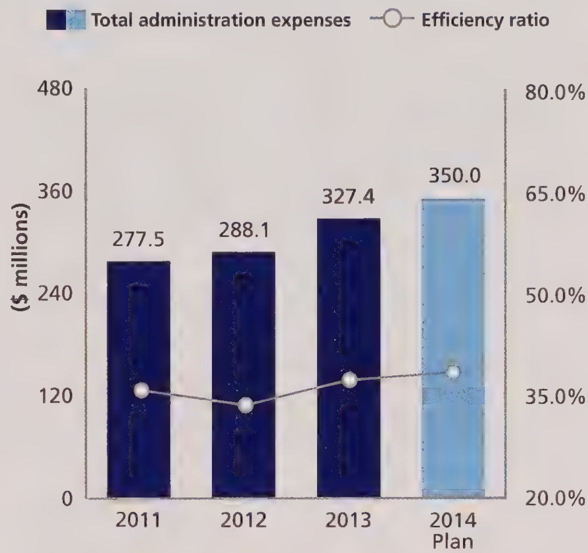
Administration expenses by category*



*The historical data has been restated due to prior period adjustments.

Total administration expenses are projected to increase to $350.0 million in 2013-14 and the efficiency ratio is expected to increase to 38.6%. The increased administration expenses will be due to: additional capacity needed to support business growth; increased pension costs caused by changes in pension plan accounting; and normal inflationary pressures. FCC will continue to conduct business in a manner that supports the Government of Canada's focus on fiscal restraint.

Administration expenses*



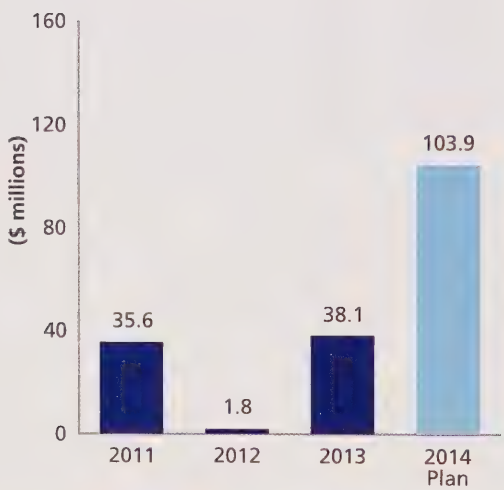
* The historical data has been restated due to prior period adjustments.

Provision for credit losses

The provision for credit losses is charged against net income by an amount necessary to bring the allowance for credit losses to the appropriate level.

The provision for credit losses increased $36.3 million from 2011-12 to $38.1 million in 2012-13. The low provision in 2011-12 was the result of a reduction in the required allowance due to improved portfolio health. This was partially offset by a change in estimate based on a refinement of the underlying assumptions used to calculate the allowance for credit losses and an increase in the allowance required to support the growth in loans receivables. In 2012-13, the provision increased resulting from a higher required allowance for credit losses. This was due primarily to growth in the portfolio, partially offset by improvements in portfolio health. In 2013-14, the provision is expected to increase to $103.9 million, primarily due to portfolio growth. The allowance as a percentage of closing loans receivable is expected to increase slightly.

Provision for credit losses



Business lines

Overview

FCC provides financing, insurance, software, learning programs and other business services to producers, agribusinesses and agri-food operations. FCC serves more than 100,000 customers across Canada through its business lines:

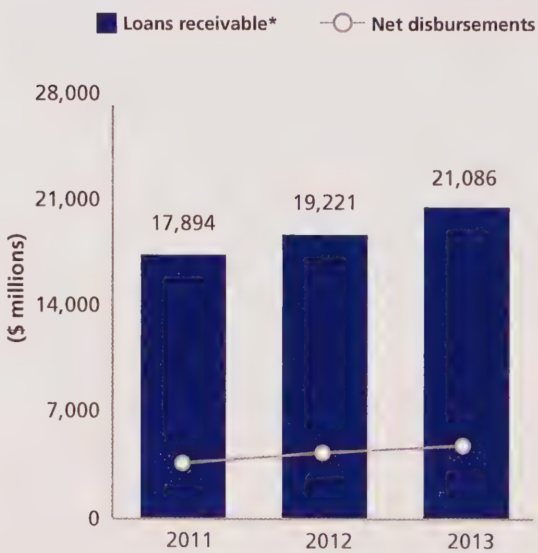
- primary production financing
- agribusiness and agri-food financing
- FCC Alliances
- FCC Ventures
- FCC Insurance
- FCC Learning
- FCC Management Software

Each business line offers specific products and services tailored to address the needs of Canadian agriculture. Lending products include standard loans with variable or fixed interest rates and many term, amortization and payment frequency options. The primary driver of FCC's financial performance is lending activity conducted through primary production financing, agribusiness and agri-food financing, and FCC Alliances.

Primary production financing provides loans to primary producers and is FCC's largest business line. Customers with loans under this business line produce raw commodities such as crops, cattle, hogs, poultry, sheep and dairy, as well as fruits, vegetables and alternative livestock. This business line also includes, but is not limited to, lending to vineyards, greenhouses, forestry and aquaculture.

Primary production financing comprised 83.8% of FCC's total loans receivable balance in 2012-13. Loans receivable increased $1,865 million from 2011-12, resulting in a portfolio of $21,086 million. The rate of loans receivable growth increased to 9.7% from 7.4% the previous fiscal year. The main driver of growth in the primary production financing portfolio was a 10.9% increase in net disbursements to $5,038 million.

Primary production financing

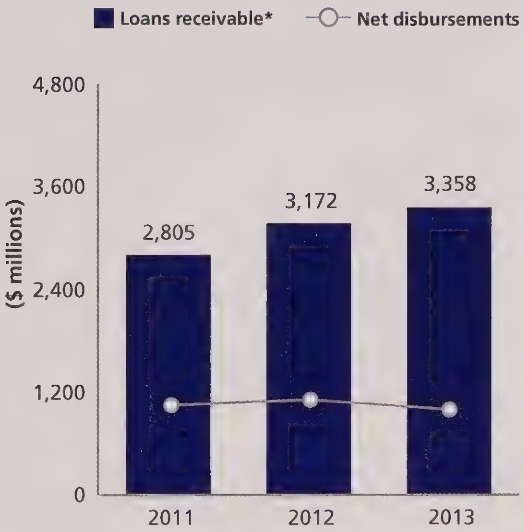


*Excludes deferred loan fees.

Agribusiness and agri-food financing provides loans to customers who support primary producers. These customers are typically suppliers or processors who sell to, buy from, or otherwise serve primary agriculture producers. They also include, but are not limited to, equipment manufacturers and dealers, input providers, wholesalers, marketing firms and processors.

Agribusiness and agri-food financing loans receivable grew 5.9% from 2011-12 to $3,358 million in 2012-13. However, net disbursements decreased by 10.2% to $968 million.

Agribusiness and agri-food financing

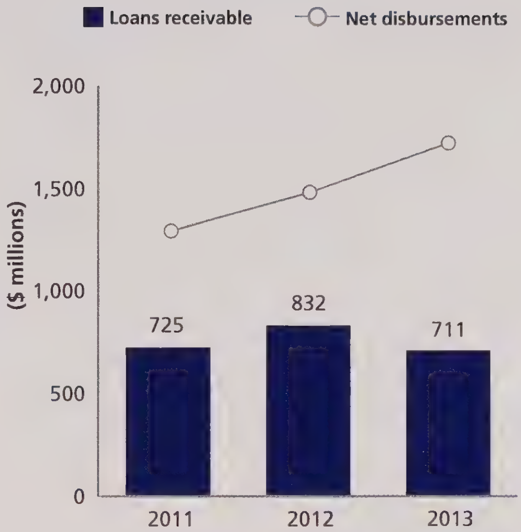


*Excludes deferred loan fees.

FCC Alliances goes beyond traditional lending to provide financing to customers who do business through contractual relationships with equipment dealers, crop input retailers, co-operatives, livestock dealers and manufacturing partners.

FCC Alliances loans receivable declined by 14.5% from 2011-12 to $711 million in 2012-13. Net disbursements increased by 16.3% to $1,740 million. Disbursements during the year exceeded loans receivable at the end of the year due to the short-term nature of the lending products in this business line.

FCC Alliances



FCC Ventures is the corporation's venture capital business line, focused on addressing the need for alternative financing in the agriculture industry.

The venture capital portfolio includes three limited partnership funds managed by Avrio Capital Inc. Avrio Fund I (launched in 2006) and Avrio Fund II (launched in 2011) are equity investment funds. The Avrio Subordinated Debt Fund, launched in January 2013, focuses exclusively on subordinated lending. Each fund received a $50-million capital commitment from FCC.

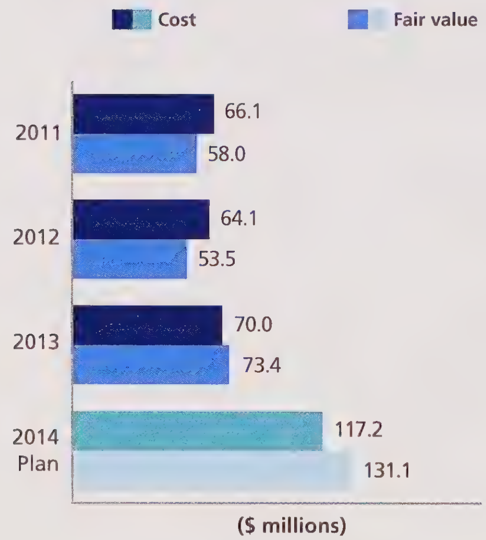
FCC held direct investments in the FCC Fund, which was formed in 2001 and closed in 2010. All investments made through this fund have been exited.

The investment objectives of the Avrio funds are focused on commercialization-to-growth or recapitalization of mature businesses in the industrial bio-products, nutraceutical ingredient, food and agricultural technology sectors. Avrio Fund I is now closed and future investments are limited to follow-on funds that may be required by existing investee companies. New investments are made through Avrio Fund II and the Subordinated Debt Fund. In June 2012, Avrio Fund II received an additional $40.9 million in committed capital provided by outside investors.

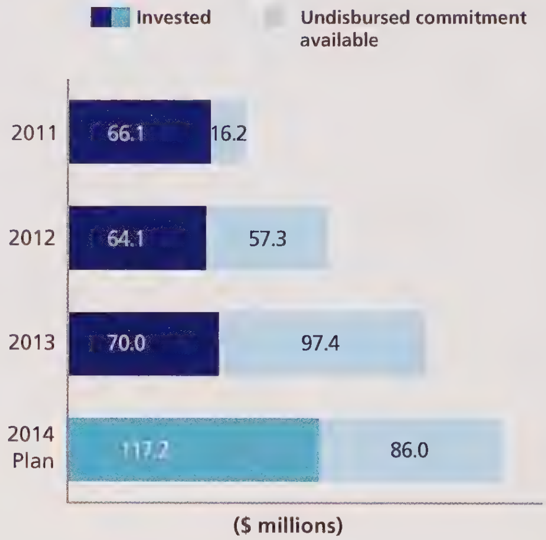
In 2012-13, FCC Ventures earned $0.6 million in income, primarily related to fair value gains in Avrio Fund I and Avrio Fund II as well as a deferred gain from a prior FCC Fund investment. These gains were mainly offset by management fees in Avrio Fund I and Avrio Fund II. During the year, $17.1 million was invested, bringing total funding to the agriculture industry since inception of FCC Ventures to $135.4 million. In addition, co-investment partners have contributed another $187.9 million to the industry since inception. Further detail of the investment carrying value amounts can be found in Note 9 of the Notes to Consolidated Financial Statements.

The venture capital portfolio is expected to increase in the next year as significant investment increases in Avrio Fund II and the Avrio Subordinated Debt Fund are expected to offset divestitures in Avrio Fund I. FCC Ventures is pursuing investment opportunities in other funds in 2013-14 to further expand its venture capital offering to the industry.

Venture capital investments



Venture capital commitments



Venture capital investments outstanding at fair value

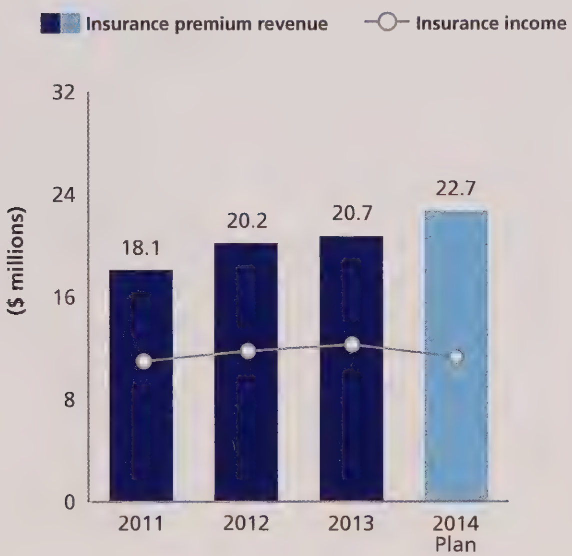
($ millions)	FCC Fund	Avrio Fund I	Avrio Fund II	Avrio Sub Debt Fund	Total
Balance March 31, 2012	2.4	47.4	3.7	0.0	53.5
Investments during the period	0.0	0.9	16.2	0.0	17.1
Repayments and divestitures during the period	0.0	0.0	0.0	0.0	0.0
Change in fair value	(2.4)	3.8	1.1	0.0	2.5
Change in accrued interest	0.0	(0.2)	0.5	0.0	0.3
Balance March 31, 2013	**0.0**	**51.9**	**21.5**	**0.0**	**73.4**

FCC Insurance offers creditor life and accident insurance to protect customers, their businesses and their families. Sun Life Assurance Company of Canada underwrites and administers FCC's insurance programs.

Life insurance premiums, net of claims, contribute directly to FCC's net income. Insurance premium revenue has increased consistently over the last several years as a result of FCC's growing portfolio and emphasis on insurance coverage as part of a customer's complete loan package. Insurance premium revenue increased to $20.7 million in 2012-13, compared to $20.2 million in 2011-12. Net insurance income varies from year to year depending on the claims incurred. In 2012-13, total incurred claims remained unchanged at $8.3 million. This resulted in net insurance income of $12.4 million in 2012-13, compared to $11.9 million in 2011-12.

In 2013-14, insurance premium revenue is expected to increase by 9.7% as a result of continued portfolio growth. Net insurance income is expected to decrease by 8.1%.

Insurance income



FCC Learning provides Canadian producers and agribusiness operators with information and training to help advance their farm management practices. In 2012-13, 12,960 people attended 160 core FCC Learning events, and 24,230 people participated in 129 events in FCC partner programs. FCC's e-learning program had 120,334 video views.

In 2013-14, FCC Learning will continue to offer a combination of e-learning and face-to-face events to meet the ever-changing business management needs of the agriculture industry.

FCC Management Software is focused on developing, promoting and improving farm management software for the Canadian agriculture industry. In 2012-13, net sales revenue, including product support, decreased slightly to $1.8 million. In 2013-14, sales revenue is expected to reach $2.0 million.

Financial position

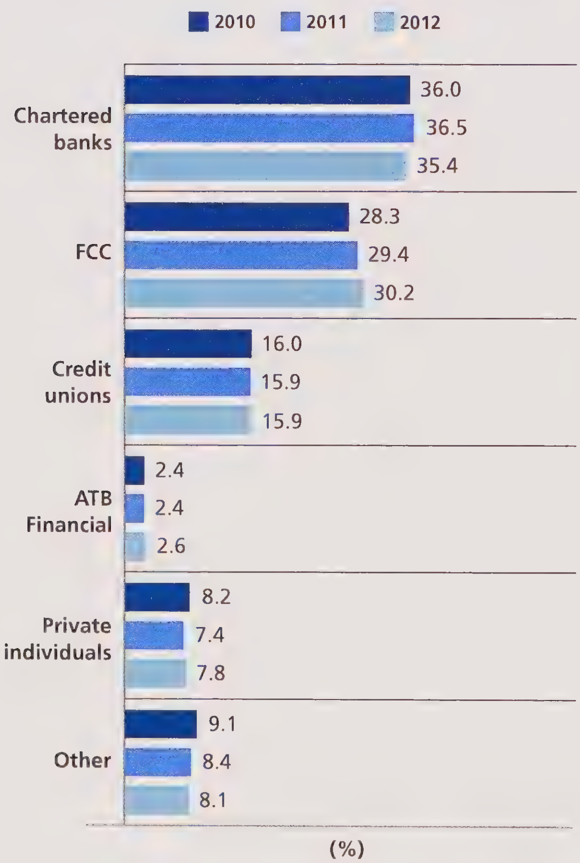
FCC continues to maintain a strong balance sheet, with adequate capital and good risk management practices. The following section discusses FCC's financial position and provides an analysis of FCC's largest asset: loans receivable. This section also discusses FCC's credit quality, funding and liquidity, and capitalization.

Loans receivable

Market share

According to Statistics Canada, farm debt outstanding increased by 6.0% to $72,199.6 million in 2012. FCC increased its market share by 0.8% to 30.2% in 2012. FCC's proportion of Canada's farm debt outstanding of $21,776.1 million remains second to the chartered banks at $25,561.8 million.

Market share as at December 31*



*Historical results are updated annually by Statistics Canada.

Total loans receivable

In 2012-13, FCC experienced its 20th consecutive year of portfolio growth. Loans receivable increased by $1,931 million from 2011-12, moving the portfolio from $23,202 million to $25,133 million. Net disbursements increased by $629 million from 2011-2012 to $7,746 million.

The growth in loans receivable was largely driven by growth in disbursements in all major agriculture enterprises, with the exception of value-added. Primary production financing and FCC Alliances financing made up 87.5% of FCC's net disbursements in 2012-13.

Growth is expected to slow in 2013-14, with loans receivable increasing by 4.4% or $1,110 million. This slower growth can be attributed to a projected $132 million reduction in net disbursements to $7,614 million. Renewal and prepayment rates are expected to be to 97.0% and 6.8% respectively.

Loans receivable

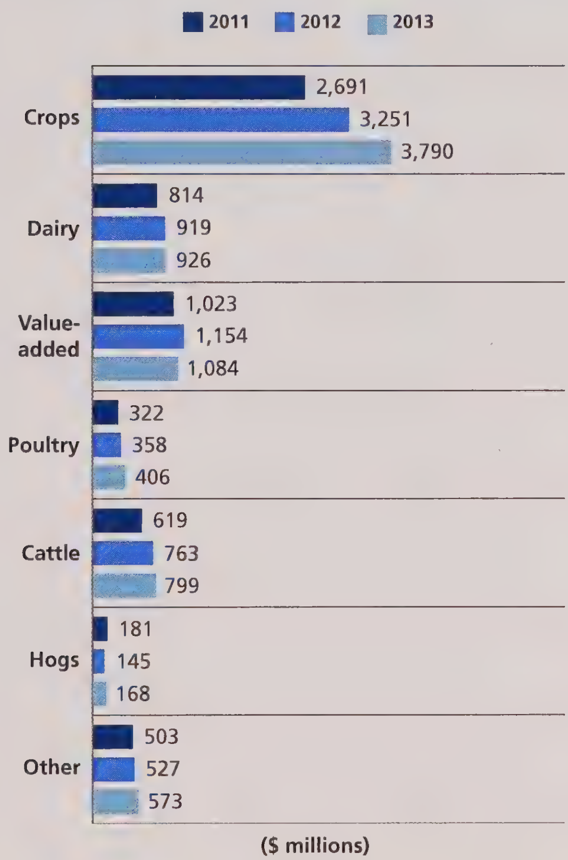
Loans receivable composition by enterprise

FCC lends to all agriculture enterprises. This diversifies FCC's lending portfolio, reduces concentration risk and helps ensure the corporation's long-term viability.

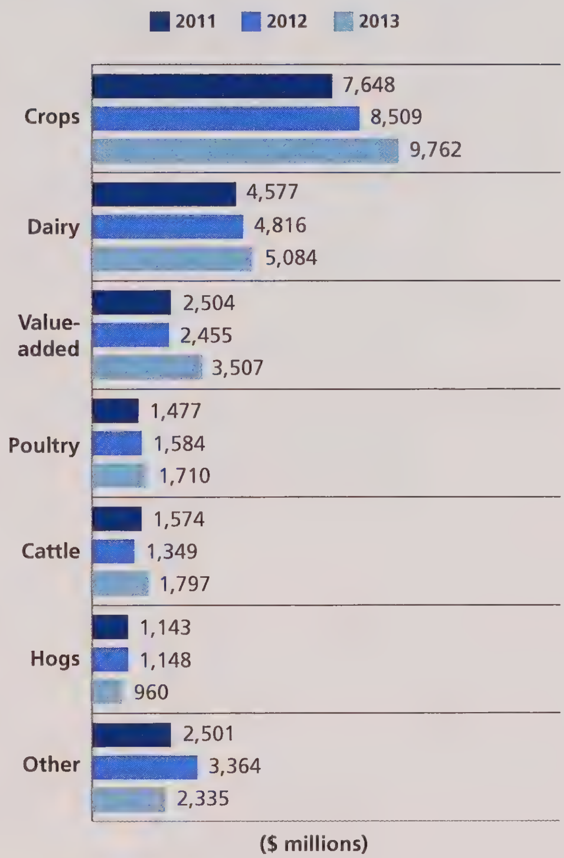
In 2012-13, net disbursements increased in all major enterprises except value-added, which experienced a decline of 6.1%. The most significant increase in net disbursements was in crops, which experienced an increase of $539 million.

FCC experienced loans receivable growth in all sectors with the exception of hogs and other. In 2012-13, the hogs and other sectors decreased by 16.4% and 30.6%, respectively. Other is composed of maple syrup, sheep, mixed enterprises and many smaller enterprise types. The largest loans receivable year-over-year growth was in the value-added and cattle sectors, which increased 42.9% to $3,507 million and 33.2% to $1,797 million, respectively.

Net disbursements by enterprise



Loans receivable by enterprise



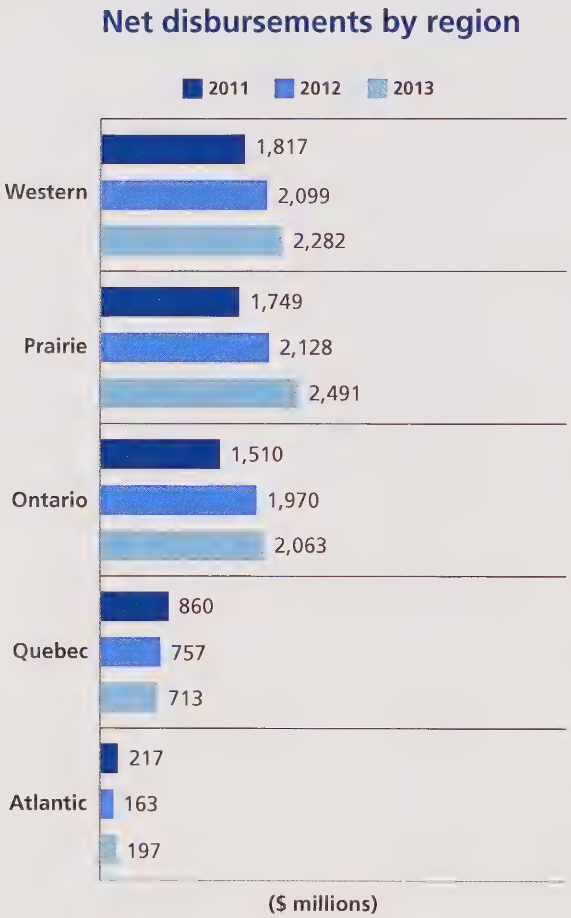
Loans receivable composition by region

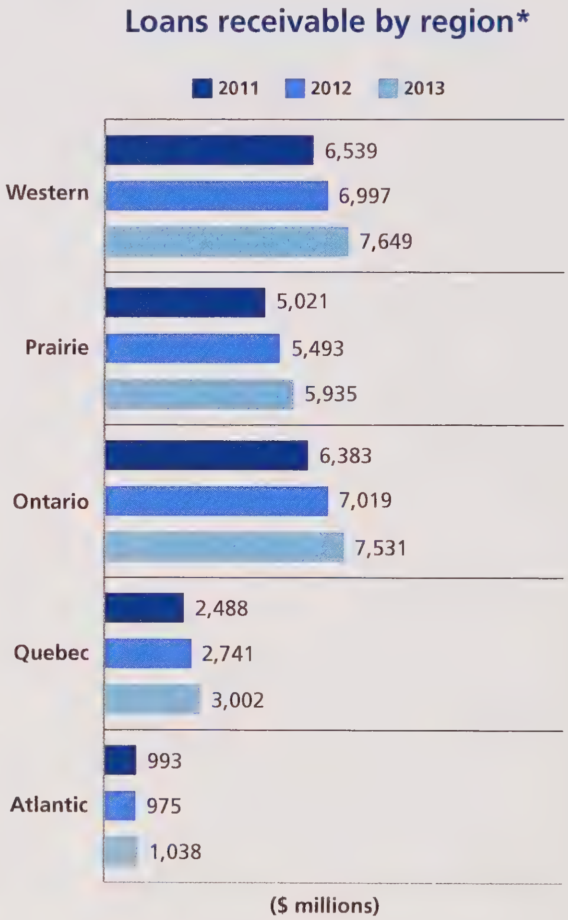
By lending to all agriculture sectors across Canada, FCC spreads risk geographically while promoting agriculture as a strong and vibrant industry.

In 2012-13, net disbursements increased in all regions, with the exception of Quebec. The largest increase was in the Atlantic region where net disbursements increased by 20.9%.

The Western and Prairie regions comprised over half of net disbursements and 54.0% of loans receivable. Their overall proportion of net disbursements increased by 2.2% to 61.6% from 2011-12.

In 2012-13, FCC experienced loans receivable growth across Canada. The Western region was the largest individual contributor to loans receivable in 2012-13 and increased by 9.3% to $7,649 million. The second largest contributor was the Ontario region which increased by 7.3% to $7,531 million in 2012-13.





*Excludes deferred loan fees.

Credit quality

FCC continually monitors its portfolio and the industry to proactively identify and develop solutions to help customers through difficult times. FCC has developed customized programs and product options that provide flexibility and support customers both in times of challenge and opportunity. Customer assistance programs and product options such as payment deferral may understate the impact of economic events on impaired loans. FCC closely monitors the number of customers using support programs and deferral options to gauge the portfolio's overall health and ensure that proper risk management practices are employed.

FCC employs sound business practices for analyzing credit quality and monitoring loans in arrears and impaired loans. From this analysis, FCC can better assess the appropriate level of allowance for credit losses and determine whether its risks are within the acceptable tolerances. FCC has the ability to withstand further losses due to its strong equity position.

Impaired loans

Impaired loans are loans that, in management's opinion, have no reasonable assurance of a timely collection of the full amount of principal and interest. In addition, any loan that is $500 or more in arrears for more than 90 days and has insufficient security is classified as impaired.

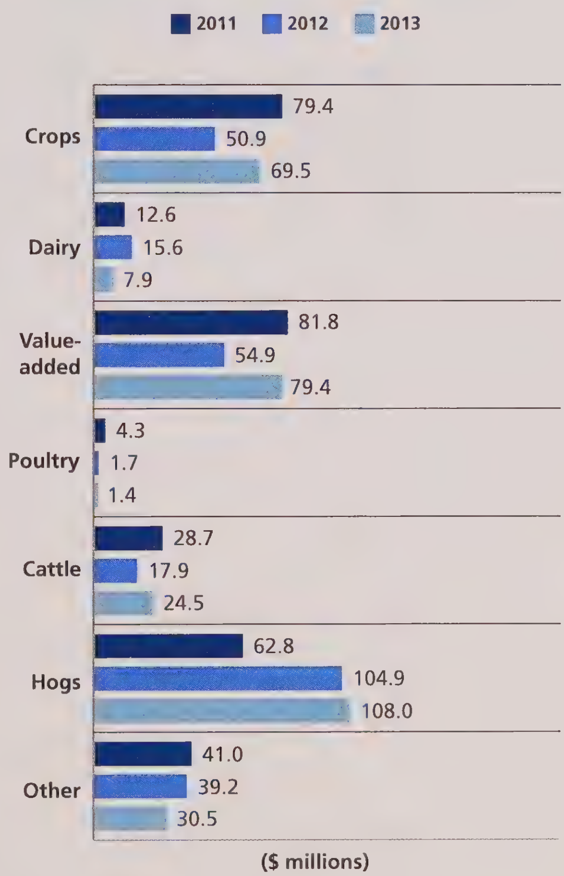
In 2012-13, impaired loans increased by $36.1 million to $321.2 million. As a percentage of loans receivable, this was an increase of 0.1% to 1.3%. In 2013-14, impaired loans are projected to increase by $46.4 million to $367.6 million due to growth in loans receivable.

At an enterprise level, impaired loans for value-added and crops experienced the largest year-over-year increase of $24.5 million and $18.6 million, respectively. Dairy and other enterprises experienced the largest year-over-year decrease of $7.7 million and $8.7 million, respectively.

Through its customer support programs, FCC proactively supports individual customers and enterprises during financial difficulties. In 2012-13, FCC made payment schedule adjustments to 1,337 loans, 148 of which were part of its enterprise-specific support programs. Payment schedule adjustments as a percentage of loans receivable remained low at 2.3% in 2012-13.

Impaired loans

Impaired loans by enterprise



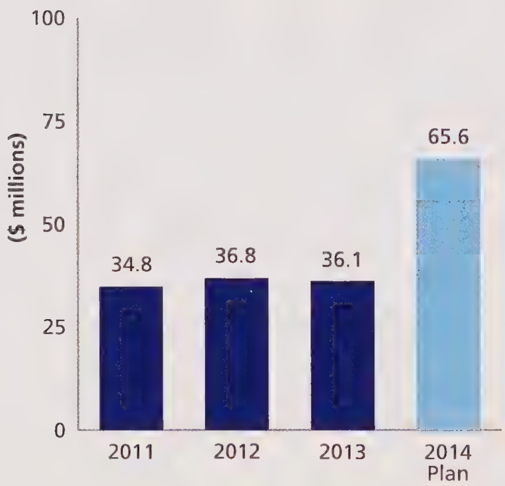
Writeoffs

Loan amounts deemed uncollectible by management are considered to be in default and may result in full or partial writeoffs, depending on the level and value of security on hand.

In 2012-13, the amount of writeoffs, net of recoveries, decreased to $36.1 million. Writeoffs as a percentage of loans receivable remained low at 0.1%.

In 2013-14, writeoffs are projected to increase by $29.5 million to $65.6 million due to expected loans receivable growth. Writeoffs as a percentage of loans receivable are expected to increase to 0.2%.

Writeoffs*

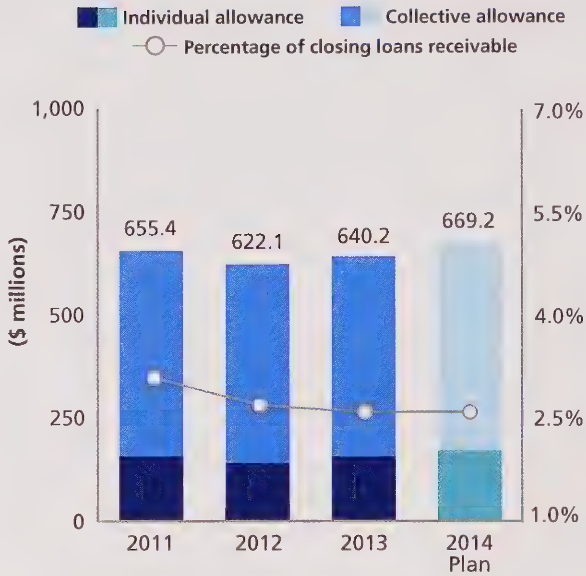


*Net of recoveries.

Allowance for credit losses

The allowance for credit losses is an estimate used to adjust loans receivable to reflect the estimated realizable value. In addition to the use of indicators such as loans in arrears and impaired loans, management must rely on estimates and judgment when assessing the appropriate level of realizable value. These inputs – coupled with changes in the external operating environment – may cause the realized credit losses to be materially different from current assessments, requiring an increase or decrease in the provision for credit losses.

Allowance for credit losses



In determining the allowance for credit losses, management segregates credit losses into two allowance components: individual and collective. The individual allowance assesses risk based on an individual review of each loan or lease in the portfolio. The collective allowance assesses risk on an aggregated basis by grouping loans and leases with similar credit risk characteristics. For more information about the allowance calculation process and its components, refer to Note 2 and Note 8 of the Notes to the Consolidated Financial Statements.

In 2012-13, the allowance for credit losses increased by $18.1 million to $640.2 million due to portfolio growth. The allowance for credit losses as a percentage of closing loans receivable decreased from 2.7% to 2.5%, as a result of an improvement in the overall health of the portfolio. In 2013-14, the allowance is expected to increase to $669.2 million, while the allowance as a percentage of loans receivable is expected to increase slightly.

Funding and liquidity

Funding activity

On April 21, 2008, FCC began borrowing directly from the federal government under the Crown Borrowing Program. FCC continues to carry capital market debt raised before this date.

During 2012-13, FCC raised short- and long-term funds through the following programs:

- Domestic Commercial Paper Program (for U.S. dollars only)
- Crown Borrowing Program

Short-term funding

Short-term funding consists of borrowings with a term-to-maturity of one year or less. Funding is raised through the Crown Borrowing Program and the Domestic Commercial Paper Program. The outstanding short-term borrowings at March 31, 2013, were $10,045.9 million, compared to $9,568.7 million at March 31, 2012. Of the total short-term borrowings outstanding, $9,771.0 million were funds from the Crown Borrowing Program.

Long-term funding

Long-term funding consists of borrowings with a term-to-maturity of more than one year, which includes fixed-rate borrowings and floating rate notes. Floating rate notes have floating interest rates that reset based on one-month or three-month T-bill rates. In 2012-13, FCC borrowed $5,356.2 million in long-term funds, an increase from $3,575.7 million the previous fiscal year. In 2012-13, all long-term borrowing was through the Crown Borrowing Program.

Overall, the total growth in long-term funding during 2012-13 was $1,133.3 million or 10.5%. This is consistent with the overall growth of the loan portfolio of $1,931.0 million or 8.3% during the same time period.

Credit ratings

New and outstanding capital market debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. Moody's Investors Service and Standard & Poor's did not change FCC's debt ratings during 2012-13. FCC's debt ratings as of March 31, 2013, are detailed below.

	Long-term	Short-term
Moody's Investors Service	Aaa	P-1
Standard & Poor's	AAA	A-1+

Financial instruments

Most of FCC's balance sheet is comprised of financial instruments, including cash, loans receivable and investments. The use of financial instruments exposes FCC to interest rate and, to a lesser extent, foreign exchange rate fluctuations. As part of its overall liability management, FCC uses derivatives to hedge risks and reduce income volatility to help ensure long-term profitability. Derivative risk management is discussed further in Note 24 of the Notes to the Consolidated Financial Statements. Fair value measurement of FCC's financial instruments is described in Note 19 of the Notes to the Consolidated Financial Statements.

Cash flow

Cash and cash equivalents increased $13.7 million from $904.2 million at March 31, 2012, to $917.9 million at March 31, 2013. In 2012-13, cash of $1,571.8 million was provided by financing activities and $1,425.7 million and $133.1 million was used in operating and investing activities, respectively.

Capital management

FCC must ensure that its financial and risk management practices keep pace with its business and the financial industry. FCC will continue to safeguard its reputation and strong financial position so that it can maintain its ability to serve the industry through all economic cycles. In 2012-13, FCC began implementation of a capital management framework from which a capital adequacy measure was derived. This framework uses best practices in bank management to assess the capital needs of the corporation. Through the capital adequacy measure, FCC can ensure that it has enough equity and other forms of capital on hand to remain solvent if a severe downturn in the agriculture industry were to occur.

In 2013-14, FCC will continue to enhance its capital management practices and ensure an adequate level of capital to support future growth and related risks.

Capitalization

At the end of 2012-13, FCC's gross assets were $26,511.0 million, of which $4,178.9 million was supported by equity and the allowance for credit losses. At this level of capitalization, 15.8% of assets did not require external debt financing. In 2013-14, FCC expects that 16.5% of assets will not require external debt financing due to lower portfolio growth relative to growth in retained earnings.

($ millions)	**2014 Plan**	**2013**	**2012**	**2011**
Allowance for credit losses	**669.2**	**640.2**	622.1	655.4
Contributed surplus	**547.7**	**547.7**	547.7	547.7
Retained earnings	**3,177.0**	**2,777.8**	2,347.0	1,943.0
Accumulated other comprehensive income	**148.9**	**184.8**	203.5	181.8
Non-controlling interest in special purpose entity	**34.0**	**28.4**	16.1	13.4
Total capitalization	**4,576.8**	**4,178.9**	3,736.4	3,341.3
Gross assets	**27,657.1**	**26,511.0**	24,451.1	22,526.2
Capitalization as a percentage of gross assets (%)	**16.5**	**15.8**	15.3	14.8

* The historical data has been restated due to prior period adjustments.

Debt to equity

FCC uses debt to equity as a key measure to assess capital adequacy. It is also used in financial management as a measure of the corporation's ability to fund future growth and meet long-term obligations. Monitoring debt to equity helps to ensure continued self-sustainability and financial viability.

At the end of 2012-13, FCC's debt-to-equity ratio remained below its legislated limit of 12:1.

From 2011-12 to 2012-13, FCC's debt-to-equity ratio improved from 7.1:1 to 6.7:1. In 2013-14, this ratio is projected to further improve to 6.1:1, due in part to the relationship between portfolio and equity growth. When growth in equity exceeds portfolio growth, the debt-to-equity ratio decreases due to a reduced requirement for borrowed funds. In 2012-13, growth in equity was 13.6%, which exceeded the portfolio growth of 8.3%.

Enterprise risk management

Managing risk to protect FCC and create value

As a financial institution, FCC understands that risk is inherent in virtually every decision. Whether lending to customers, defining business priorities or deciding where to invest, FCC takes potential risks into account.

FCC is diligent about enterprise risk management (ERM), which is integrated with strategic planning across business lines and corporate initiatives. The corporation is focused on continually improving its approach to ERM, including the continued implementation of an ERM framework and the development of a risk appetite statement and risk tolerances.

Risk governance

The FCC Board of Directors oversees the corporation's risk governance framework, which is supported by policies and committees that guide corporate decision-making.

A number of internal committees develop and monitor aspects of FCC's overall risk management policies, processes and practices. These committees report regularly to the President and CEO and the Executive Management Team (EMT), as required, or directly to the Board.

FCC Board of Directors

The FCC Board of Directors oversees risk management and ensures that policies, control systems and practices are established to manage key business and financial risks. Three committees assist the Board in fulfilling its risk governance responsibilities.

The **Corporate Governance Committee** provides recommendations to the Board regarding all FCC corporate governance matters, including strategic planning and ERM programs and processes, the code of conduct and ethics, corporate social responsibility and the reputation policy.

The **Audit Committee** assists the Board in fulfilling its oversight responsibilities with respect to the corporation's financial affairs, including integrity of financial reporting, effectiveness of internal controls, regulatory compliance, ethical conduct and performance of FCC's internal and external audit functions.

The **Human Resources Committee** is responsible for advising the Board about all matters relative to the President and CEO, including required skills, goal setting and performance reviews. The committee is also responsible for reviewing the corporation's compensation structure and succession plans for key employees and senior management.

FCC risk committees

The **President and CEO** and **EMT** are responsible for corporate decision-making, including managing the corporation's principal risks. They're also responsible for making decisions concerning risk-related strategies that have been escalated by the following committees.

The **Asset Liability Committee** (ALCO) directs FCC's asset and liability management function, including:

- establishing and maintaining portfolio risk management policies and processes
- implementing balance sheet interest rate policies
- overseeing loan pricing
- integrating asset and liability management with corporate strategies
- achieving portfolio return targets

The **Credit Committee** approves large loan transactions and requests for pre-authorized credit as per FCC's credit policies. The committee ensures that approved lending transactions fall within an appropriate risk tolerance.

The **Credit Policy Committee** ensures that FCC adheres to industry best practices and federal, provincial and regional laws and regulations when establishing credit policy and credit risk tolerance.

The **ERM Steering Committee** reviews and recommends FCC's ERM framework, policies, strategies and subsequent enhancements to EMT. The committee also approves annual corporate action plans to mitigate significant risks.

The **Reputation Steering Committee** acts as a focal point for the co-ordination of reputation issues. The committee:

- provides a corporate approach and enterprise-wide perspective on FCC's reputation
- offers counsel on reputation risks
- monitors issues and provides reports to the President and CEO, EMT and the Board

Review of FCC's risk management

FCC has undergone a review of risk and risk management practices by the Office of the Superintendent of Financial Institutions (OSFI). OSFI is the prudential regulator and supervisor for federally regulated financial institutions in Canada. Results from the review will be used to strengthen and improve FCC's management of risk.

FCC's principal risks

Risk is the potential that an event, action or inaction may threaten FCC's ability to achieve its business mandate and objectives. FCC has identified five principal risk areas: credit, market, operational, strategic and reputation.

Credit risk

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet financial obligations to FCC. Credit risk on loans is the most significant risk that the corporation faces.

The Board is responsible for approving the corporation's credit risk tolerance and relies on a number of committees, divisions and business units to effectively manage credit risk.

On an annual basis, the Board and ALCO approve a portfolio diversification plan and key risk measures. Leveraging financial industry best practices, FCC has developed a credit capital model and is implementing an overarching capital management framework.

Credit risk assessment starts with individual transactions. FCC lending and credit risk employees assess and manage credit risk by ensuring that individual loans are consistent with defined policies. Certified appraisers in the Valuations and Environmental Risk business unit help assure the accuracy of loan security value estimates.

FCC uses policies, processes, systems and strategies to manage the credit risk of the lending portfolio. The Portfolio and Credit Risk division assesses credit risk at the aggregate level, providing risk policies, assessment tools and models that quantify credit risk and allowance for credit losses. FCC also closely monitors the agriculture and agri-food operating environments to ensure that the corporation's lending policies, activities and prices are appropriate and relevant.

The Treasury division assesses credit risk due to counterparty exposure on derivative and investment activity. Policies, processes, systems and strategies are used to manage the credit risk of Treasury activities.

Details on how FCC manages credit risk are described in Note 24 of the Notes to the Consolidated Financial Statements.

Market and liquidity risk

Market risk is the potential for loss due to adverse changes in underlying market factors such as interest rates and foreign exchange rates.

FCC has market risk policies and limits in place to ensure that exposure to interest rate and foreign exchange risks is identified, measured, managed and reported on a timely basis. Market risk management at FCC also encompasses derivative fair value risk. Policies include limits around the variability of net interest income and the market value of portfolio equity relative to interest rate changes. Market risk policies are regularly reviewed by ALCO and approved by the Board. The Treasury division implements market risk management directives and reports regularly to ALCO and the Board on its activities and asset/liability positions.

Liquidity risk is the risk that FCC has insufficient funds to meet payment obligations as they come due. Liquidity risk is minimized through the use of a liquid investment portfolio, funding through the Crown Borrowing Program and access to an operating line of credit.

FCC's market risk management is described in Note 24 of the Notes to the Consolidated Financial Statements.

Operational risk

Operational risk relates to the potential of direct or indirect loss due to inadequate or failed internal processes, resources, systems or external events, and the failure to comply with, or adapt to, legislative or regulatory requirements or litigation.

FCC has a team approach to proactively manage operational risk. All managers are responsible for ensuring that appropriate policies and processes are in place within their business units and internal controls are operating effectively.

FCC has a formal internal control framework to ensure a risk-based culture. The framework provides requirements for the design, implementation, operation and monitoring of the corporation's internal controls.

FCC's operations audit program examines lending activities and provides learning opportunities for continual improvement in the areas of risk assessment and mitigation, compliance to credit policies and data integrity.

Incidents of fraud may negatively affect customer and public perceptions of FCC, making current and potential customers less willing to do business with the corporation. FCC reduces exposure to fraud risk by adhering to a Board-approved fraud risk management policy and delivering fraud awareness training to employees.

To ensure that the corporation can sustain operations in the event of a business disruption, FCC actively updates and tests its business continuity plan.

Enterprise security is addressed by a highly skilled and dedicated team of professionals across Information Technology, Facilities and Administration, and Human Resources who provide security controls that protect the availability, confidentiality and integrity of FCC assets. Overall, enterprise security governance is provided by a cross-divisional security co-ordination team.

Strategic risk

Strategic risk refers to the external environment and includes competitors' and FCC's ability to develop and implement effective business strategies.

EMT develops the corporate strategy annually and documents FCC's key strategic priorities in the five-year corporate plan. The Board provides oversight.

The external environment, including the Canadian financial marketplace and the agriculture industry, is monitored to discern if strategic changes are required to address emerging risks. FCC regularly communicates with its shareholder, the Government of Canada, to ensure that the corporation's activities align with government priorities. Each year, the Minister of Agriculture and Agri-Food establishes a set of priorities to ensure that FCC continues to strengthen the agriculture industry.[27]

Potential strategic risks are identified and analyzed through external scanning, consultation with internal subject matter experts and other means. The Board discusses the top enterprise risks during its involvement in the strategic planning cycle. EMT members are accountable for developing risk mitigation plans, monitoring progress and reporting to the Board on a quarterly basis through corporate performance reporting.

Reputation risk

Reputation risk is the risk that key stakeholders and others may develop negative perceptions about FCC that could adversely affect the corporation's reputation and ability to attract and retain customers, business partners and employees.

As a federal Crown corporation, FCC is accountable to all Canadians. To avoid real or perceived reputation damage, FCC has a robust governance structure, including policies and processes, to guide employee conduct in interactions with co-workers, customers, industry partners, suppliers, media and the general public.

Customer integrity and the potential impact on FCC's reputation from conducting business with any particular individual is part of the lending process. The loan application process requires customers to sign a declaration stating that they know of no reason why FCC may have any concern about their business.

[27] See FCC and public policy section of this report (page 11).

Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of Farm Credit Canada and all information in this annual report are the responsibility of the corporation's management and have been reviewed and approved by the FCC Board of Directors. The consolidated financial statements include some amounts that are necessarily based on management's best estimates and judgments, such as the allowance for credit losses, the retirement benefit liability, the reserve for insurance claims and the fair value of financial instruments.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. Financial information presented elsewhere in the annual report is consistent with that contained in the consolidated financial statements.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that the corporation properly authorizes and records transactions, safeguards assets, recognizes liabilities, maintains proper records, and complies with applicable laws and conflict of interest rules. The system of internal control is augmented by internal audit, which conducts periodic reviews of different aspects of the corporation's operations.

The FCC Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. It exercises this responsibility through the Audit Committee, which is composed of Directors who are not employees of the corporation. The Audit Committee meets with management, internal auditors and external auditors on a regular basis. Internal and external auditors have full and free access to the Audit Committee.

The corporation's independent external auditor, the Auditor General of Canada, is responsible for auditing the corporation's transactions and consolidated financial statements and for issuing his report thereon.

Greg Stewart, P.Ag., C.Dir
President and Chief Executive Officer

Rick Hoffman, CMA, MBA
Executive Vice-President and
Chief Financial Officer

Regina, Canada
May 29, 2013

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Agriculture and Agri-Food

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of Farm Credit Canada, which comprise the consolidated balance sheet as at 31 March 2013, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Farm Credit Canada as at 31 March 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of Farm Credit Canada that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Canada Act*, the by-laws of Farm Credit Canada and the directive issued pursuant to Section 89 of the *Financial Administration Act*.

Clyde M. MacLellan, CA
Assistant Auditor General
for the Auditor General of Canada

29 May 2013
Ottawa, Canada

Consolidated Balance Sheet

(Thousands of Canadian dollars)	March 31, 2013	March 31, 2012 Restated Note 3	April 1, 2011 Restated Note 3
Assets			
Cash and cash equivalents	**$ 917,871**	$ 904,217	$ 601,840
Temporary investments (Note 4)	**164,781**	83,813	284,162
Accounts receivable	**18,666**	16,356	12,676
Derivative financial assets (Note 5)	**71,183**	67,898	47,407
	1,172,501	1,072,284	946,085
Loans receivable – net (Notes 6 and 8)	**24,493,332**	22,580,309	20,745,891
Finance leases receivable – net (Notes 7 and 8)	**12,908**	9,541	4,912
Venture capital investments (Note 9)	**73,366**	53,527	58,024
	24,579,606	22,643,377	20,808,827
Equipment and leasehold improvements (Note 10)	**23,467**	26,655	29,314
Computer software (Note 11)	**38,329**	40,091	42,124
Equipment under operating leases (Note 12)	**40,086**	28,331	19,077
Other assets (Note 13)	**16,825**	18,307	25,284
	118,707	113,384	115,799
Total assets	**$ 25,870,814**	$ 23,829,045	$ 21,870,711
Liabilities			
Accounts payable and accrued liabilities	**$ 57,459**	$ 59,675	$ 52,153
Derivative financial liabilities (Note 5)	**–**	84	4,724
	57,459	59,759	56,877
Borrowings (Note 14)			
Short-term debt	**10,045,902**	9,568,666	8,029,920
Long-term debt	**11,906,034**	10,772,729	10,921,999
	21,951,936	20,341,395	18,951,919
Transition loan liability	**92,499**	84,108	84,245
Retirement benefit liabilities (Note 15)	**218,104**	217,897	81,740
Other liabilities (Note 16)	**12,129**	11,550	10,024
	322,732	313,555	176,009
Total liabilities	**22,332,127**	20,714,709	19,184,805
Equity			
Contributed surplus	**547,725**	547,725	547,725
Retained earnings	**2,777,823**	2,346,976	1,943,001
Accumulated other comprehensive income	**184,752**	203,477	181,804
Equity attributable to shareholder of parent entity	**3,510,300**	3,098,178	2,672,530
Non-controlling interest in special purpose entity	**28,387**	16,158	13,376
	3,538,687	3,114,336	2,685,906
Total liabilities and equity	**$ 25,870,814**	$ 23,829,045	$ 21,870,711

Commitments, guarantees and contingent liabilities (Note 21).

The accompanying notes are an integral part of the consolidated financial statements.

The consolidated financial statements were approved by the FCC Board of Directors on May 29, 2013, and were signed on its behalf by:

Greg Stewart, P.Ag., C.Dir
President and Chief Executive Officer

John Klippenstein, FCMA
Chair, Audit Committee

Consolidated Statement of Operations

For the year ended March 31 (Thousands of Canadian dollars)	2013	2012 Restated Note 3
Interest income	$ 1,115,477	$ 1,060,359
Interest expense	254,056	257,989
Net interest income (Note 17)	861,421	802,370
Provision for credit losses (Note 8)	38,072	1,781
Net interest income after provision for credit losses	823,349	800,589
Net insurance income	12,378	11,907
Other income (Note 9)	3,200	39,168
Net interest income and non-interest income	838,927	851,664
Administration expenses		
Salary expense	139,840	127,649
Benefits expense	53,496	39,531
Professional fees expense	38,776	33,822
Facilities, software and equipment expense	26,120	23,656
Amortization and depreciation expense	30,210	27,500
Travel and training expense	14,037	15,292
Marketing and promotion expense	11,175	10,093
Other expenses	13,771	10,530
Total administration expenses	327,425	288,073
Net income before fair value adjustment	511,502	563,591
Fair value adjustment (Note 18)	1,883	1,997
Net income	$ 513,385	$ 565,588
Net income attributable to:		
Shareholder of parent entity	$ 512,938	$ 564,855
Non-controlling interest in special purpose entity	447	733

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended March 31 (Thousands of Canadian dollars)	2013	2012 Restated Note 3
Net income	**$ 513,385**	$ 565,588
Other comprehensive income		
Net gains on derivatives designated as cash flow hedges	**3,796**	39,178
Transfer of net realized gains on derivatives designated as cash flow hedges to net income	**(22,769)**	(18,430)
Change in net (losses) gains on derivatives designated as cash flow hedges	**(18,973)**	20,748
Net actuarial losses on defined benefit pension plans	**(25,661)**	(143,380)
Net unrealized gains on available-for-sale financial assets	**248**	925
Total other comprehensive income (loss)	**(44,386)**	(121,707)
Total comprehensive income	**$ 468,999**	$ 443,881
Total comprehensive income attributable to:		
Shareholder of parent entity	**$ 468,552**	$ 443,148
Non-controlling interest in special purpose entity	**447**	733

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

(Thousands of Canadian dollars)	**Balance April 1, 2012 Restated Note 3**	**Net income**	**Other comprehensive income**	**Dividend paid**	**Distributions to non-controlling interest**	**Balance March 31, 2013**
Contributed surplus	**$ 547,725**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 547,725**
Retained earnings	**2,346,976**	**512,938**	**(25,661)**	**(56,430)**	**–**	**2,777,823**
Net gains (losses) on derivatives designated as cash flow hedges	**204,045**	**–**	**(18,973)**	**–**	**–**	**185,072**
Net unrealized (losses) gains on available-for-sale financial assets	**(568)**	**–**	**248**	**–**	**–**	**(320)**
Total accumulated other comprehensive income (loss)	**203,477**	**–**	**(18,725)**	**–**	**–**	**184,752**
Total equity attributable to parent	**3,098,178**	**512,938**	**(44,386)**	**(56,430)**	**–**	**3,510,300**
Non-controlling interest in special purpose entity	**16,158**	**447**	**–**	**–**	**11,782**	**28,387**
Total	**$ 3,114,336**	**$ 513,385**	**$ (44,386)**	**$ (56,430)**	**$ 11,782**	**$ 3,538,687**

(Thousands of Canadian dollars)	Balance April 1, 2011 Restated Note 3	Net income Restated Note 3	Other comprehensive income Restated Note 3	Dividend paid	Distributions to non-controlling interest	Balance March 31, 2012 Restated Note 3
Contributed surplus	$ 547,725	$ –	$ –	$ –	$ –	$ 547,725
Retained earnings	1,943,001	564,855	(143,380)	(17,500)	–	2,346,976
Net gains on derivatives designated as cash flow hedges	183,297	–	20,748	–	–	204,045
Net unrealized (losses) gains on available-for-sale financial assets	(1,493)	–	925	–	–	(568)
Total accumulated other comprehensive income	181,804	–	21,673	–	–	203,477
Total equity attributable to parent	2,672,530	564,855	(121,707)	(17,500)	–	3,098,178
Non-controlling interest in special purpose entity	13,376	733	–	–	2,049	16,158
Total	$ 2,685,906	$ 565,588	$ (121,707)	$ (17,500)	$ 2,049	$ 3,114,336

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended March 31 (Thousands of Canadian dollars)	2013	2012 Restated Note 3
Operating activities		
Net income	**$ 512,938**	$ 564,855
Adjustments to determine net cash (used in) provided by operating activities:		
Net interest income	**(861,421)**	(802,370)
Unwind adjustment on impaired loans	**3,200**	535
Provision for credit losses	**38,072**	1,781
Fair value adjustment	**(1,883)**	(1,997)
Gain on sale of venture capital investment in associate	**(1,393)**	(34,048)
Depreciation and amortization	**30,210**	27,500
Other	**(1,531)**	(864)
Net cash outflow from loans receivable	**(1,960,378)**	(1,836,732)
Net cash outflow from finance leases receivable	**(3,164)**	(4,258)
Net change in other operating assets and liabilities	**10,525**	19,945
Interest received	**1,067,016**	1,027,656
Interest paid	**(257,875)**	(245,922)
Cash used in operating activities	**(1,425,684)**	(1,283,919)
Investing activities		
Net cash (outflow) inflow from temporary investments	**(80,823)**	200,442
Acquisition of venture capital investments	**(17,105)**	(9,511)
Proceeds on disposal and repayment of venture capital investments	**1,445**	50,452
Purchase of equipment and leasehold improvements	**(7,045)**	(8,142)
Purchase of computer software	**(11,710)**	(9,588)
Purchase of equipment under operating leases	**(18,019)**	(13,983)
Disposal of real estate property held for sale	**199**	2,292
Cash (used in) provided by investing activities	**(133,058)**	211,962
Financing activities		
Long-term debt issued	**5,356,221**	3,575,666
Long-term debt repaid	**(3,656,439)**	(3,481,967)
Short-term debt issued	**33,677,126**	32,373,724
Short-term debt repaid	**(33,748,667)**	(31,074,904)
Dividend paid	**(56,430)**	(17,500)
Cash provided by financing activities	**1,571,811**	1,375,019
Change in cash and cash equivalents	**13,069**	303,062
Cash and cash equivalents, beginning of year	**904,217**	601,840
Effects of exchange rate changes on the balances of cash held and due in foreign currencies	**585**	(685)
Cash and cash equivalents, end of year	**$ 917,871**	$ 904,217
Cash and cash equivalents are comprised of:		
Cash	**$ 106,144**	$ 107,576
Short-term investments	**811,727**	796,641

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. The corporation

Authority and objectives

Farm Credit Canada (the corporation) was established in 1959 by the Farm Credit Act as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the Financial Administration Act. The corporation is located in Canada and its registered office is at 1800 Hamilton Street, Regina, Saskatchewan, Canada. The corporation is wholly owned by the Government of Canada and is not subject to the requirements of the Income Tax Act.

On April 2, 1993, the Farm Credit Corporation Act was proclaimed into law and replaced the Farm Credit Act and the Farm Syndicates Credit Act, both of which were repealed. The revised Act allows the corporation to operate under an expanded mandate that includes broader lending and administrative powers.

On June 14, 2001, the Farm Credit Canada Act received royal assent, which updated the Farm Credit Corporation Act. This Act allows the corporation to offer producers and agribusiness operators a broader range of services.

In September 2008, the corporation, together with a number of other Crown corporations, was issued a directive (P.C. 2008-1598) pursuant to Section 89 of the Financial Administration Act, requiring due consideration by the corporation to the personal integrity of those it lends to or provides benefits to. During fiscal 2013, the corporation continued to implement the requirements of Section 89(6) of the Financial Administration Act.

The purpose of the corporation is to enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small and medium-sized businesses, that are businesses related to farming. The primary focus of the activities of the corporation shall be on farming operations, including family farms.

2. Significant accounting policies

Basis of presentation

Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The significant accounting policies used in the preparation of the consolidated financial statements are summarized below and in the following pages. The significant accounting policies have been applied consistently to all periods presented in the consolidated financial statements.

The consolidated financial statements are presented in Canadian dollars, which is the corporation's functional currency. Unless otherwise stated, all dollar amounts presented within the Notes to the Consolidated Financial Statements are in thousands of Canadian dollars.

Reclassification of comparative figures

Depreciation on equipment under operating leases in 2012 for $5.1M has been reclassified from interest expense to amortization and depreciation expense. This change was made to more closely align the Consolidated Statement of Operations to the nature method of classification as prescribed by IAS 1.

2. Significant accounting policies (continued)

Basis of consolidation

The consolidated financial statements include the accounts of the corporation, Avrio Ventures Limited Partnership (Avrio Fund I), Avrio Ventures Limited Partnership II (Avrio Fund II) and Avrio Subordinated Debt Limited Partnership (Avrio Subordinated Debt Fund). Avrio Fund I, Avrio Fund II and Avrio Subordinated Debt Fund are venture capital limited partnerships for which the corporation is a limited partner holding majority partnership interests. The corporation consolidates Avrio Fund I, Avrio Fund II, and Avrio Subordinated Debt Fund because they are special purpose entities in which the corporation is entitled and exposed to a majority of the benefits and risks. An adjustment has been made for significant intervening transactions occurring between the December 31 year-end of Avrio Fund I, Avrio Fund II, and Avrio Subordinated Debt Fund and the year-end of the corporation. All significant intercompany balances and transactions have been eliminated. The non-controlling interest, which represents the equity in Avrio Fund I, Avrio Fund II and Avrio Subordinated Debt Fund not attributable to the corporation, has been presented in the Consolidated Balance Sheet, the Consolidated Statement of Operations, the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity.

Classification and designation of financial instruments

Financial assets are classified or designated as loans and receivables, financial assets at fair value through profit or loss or available-for-sale (AFS) financial assets. Financial liabilities are classified or designated as financial liabilities at fair value through profit or loss or other financial liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial instruments at fair value through profit or loss are derivative financial assets and liabilities that are classified as held for trading (HFT) and non-derivative financial assets and liabilities that meet certain conditions to be designated at fair value through profit or loss at initial recognition. AFS financial assets are non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets.

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification.

Cash and cash equivalents

Cash and cash equivalents are composed of bank account balances and short-term highly liquid investments that are readily convertible to cash with a maturity date of 90 days or less from the date of acquisition. Interest earned on cash and cash equivalents is included in interest income.

Temporary investments

Temporary investments have maturity dates between 91 and 365 days from the date of acquisition, are acquired primarily for liquidity purposes and are designated as AFS financial assets. Temporary investments are accounted for at fair value using trade date accounting and a valuation technique as described under the Estimation Uncertainty heading. Unrealized fair value gains and losses are included in other comprehensive income (OCI). Interest earned on temporary investments is included in interest income.

2. Significant accounting policies (continued)

Derivatives

Derivative financial instruments create rights and obligations that are intended to mitigate one or more of the financial risks inherent in an underlying primary financial instrument. The corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations, within limits approved by the FCC Board of Directors (Board). These limits are based on guidelines established by the Department of Finance. The corporation does not use derivative financial instruments for speculative purposes.

Derivatives not designated as hedging instruments in effective hedging relationships are classified as HFT. Derivatives classified as HFT are recorded at fair value using a valuation technique as described under the Estimation Uncertainty heading, with gains and losses reported in the fair value adjustment. Derivatives classified as HFT are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. Interest earned and incurred on derivatives classified as HFT is included in interest expense.

Cash flow hedges

The corporation documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking hedge transactions. The corporation also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. Derivatives that are designated as hedging items in cash flow hedges are accounted for at fair value. The effective portion of a change in a derivative's fair value is recognized in OCI, while the ineffective portion of a change in a derivative's fair value is reported in the fair value adjustment. Derivatives designated as hedging items are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. Interest income or expense related to derivatives designated as hedging items in cash flow hedges is recognized on the same basis as the hedged item, as an adjustment to interest income or expense, respectively.

Cash flow hedge accounting is discontinued prospectively when the derivative contract is terminated, matures or no longer qualifies as an effective cash flow hedge. When a cash flow hedge is discontinued, any cumulative gains or losses previously recognized in OCI are transferred to net interest income over the remaining term of the original hedge and in the same manner that net interest income is affected by the variability in the cash flows as the hedged item. For derivatives still outstanding following the date of the discontinued hedging relationship, all subsequent fair value gains and losses are recognized immediately in the fair value adjustment.

Loans receivable

Loans are classified as loans and receivables. Loans receivable are stated net of an allowance for credit losses and deferred loan fees and are measured at amortized cost using the effective interest rate method.

Loan interest income is recorded on an accrual basis and recognized in net income using the effective interest rate method until the loan is classified as impaired. Once a loan is impaired, the unwinding of the discount on the security value is recognized as interest income based on the original effective interest rate of the loan.

Loan origination fees, including commitment fees and renegotiation fees, are considered an integral part of the return earned on a loan and are recognized in interest income over the expected term of the loan using the effective interest rate method. In addition, certain incremental direct costs for originating the loans are deferred and netted against the related fees.

An impaired loan is any loan where, in management's opinion, the credit quality has deteriorated to the extent that the corporation no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, any loan that is $500 or more in arrears for 90 days is classified as impaired unless the loan is sufficiently secured. When a loan is classified as impaired, the carrying value is reduced to its estimated realizable value through an adjustment to the individual allowance for credit losses. Changes in the estimated realizable amount arising subsequent to initial impairment are also adjusted through the individual allowance for credit losses.

2. Significant accounting policies (continued)

Loan interest income is not accrued when a loan is classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to performing status when, in management's opinion, the ultimate collection of principal and interest is reasonably assured. When the impaired loan is restored to performing status, the remaining individual allowance for credit losses is reversed.

Loans and their related allowance for credit losses are written off when all collection efforts have been exhausted and there is no realistic prospect of future recovery.

Finance leases receivable

Finance leases receivable are classified as loans and receivables. Finance leases receivable are stated net of an allowance for credit losses and are recorded at the aggregate future minimum lease payments plus estimated residual values less unearned finance income. Finance lease income is recognized in a manner that produces a constant rate of return on the lease.

Allowance for credit losses

The corporation recognizes an allowance for credit losses that represents management's best estimate of the incurred losses in the loan and lease portfolio at the balance sheet date. The allowance is increased or decreased by the provision for credit losses, the government subsidy for the Hog Industry Loan Loss Reserve Program (HILLRP), as described under the Government Assistance heading, the unwind adjustment, as described under the Individual Allowance heading, writeoffs and recoveries.

The corporation assesses at each balance sheet date whether there is objective evidence that a loan or lease is impaired. If there is objective evidence that an impairment loss on a loan or lease has been incurred, the carrying value of the loan or lease is reduced through the allowance for credit losses and the amount of the loss is recognized in the provision for credit losses. If, in a subsequent period, the amount of impairment loss increases or decreases and the increase or decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is adjusted through the allowance for credit losses and provision for credit losses.

In determining the allowance for credit losses, management segregates credit losses into two components: individual and collective.

Individual allowance – The corporation first assesses whether objective evidence of impairment exists based on an individual review of each loan or lease in the portfolio. The review is undertaken to determine if a loss event indicating impairment exists for an individual loan or lease. The review assesses whether credit quality has deteriorated to the extent that the corporation no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, the corporation has defined arrears of greater than $500 for 90 or more consecutive days as being a loss event. If a loss event has occurred, an impairment loss is recorded as the difference between the loan or lease's carrying value and the present value of estimated future cash flows discounted at either the loan or lease's original effective interest rate for fixed-rate loans or leases or the effective interest rate at the time of the impairment for variable-rate loans or leases. The estimation of future cash flows considers the fair value of any underlying security as well as the estimated time and costs to realize the security. In subsequent periods, any change in present value of estimated future cash flows attributable to the passage of time adjusts the allowance for credit losses through the unwind adjustment. The unwind adjustment is recorded in interest income.

2. Significant accounting policies (continued)

Collective allowance – If the corporation determines that no objective evidence of impairment exists for an individually assessed loan or lease, it is assessed on a collective basis. In making the collective assessment of impairment, management groups the loans and leases into portfolios with similar credit risk characteristics. Future cash flows for these portfolios are estimated on the basis of underlying security values and historical loss experience. The collective assessment of impairment for loans is broken down into three components: triggered loan pool, incurred but not reported (IBNR) and overlay.

- Triggered loan pool – Loans are included in this pool if any one of the following loss events has occurred:

  1. All loans for customers with any one loan that has a minimum of $500 of arrears.
  2. All loans for customers with any one loan that has had an amortization extension to the payment schedule in the last 12 months.
  3. Any individual loan that has had a 15-point risk scoring and pricing system (RSPS) score drop when compared to its RSPS score 12 months ago.

- IBNR – This assessment considers credit losses that have been incurred but not yet identified on loans subject to individual assessment. It is based on the historical movement of loans from performing status to either the triggered or individually impaired loan pools.

- Overlay – The corporation uses the overlay to adjust its historical loss experience reflected in the triggered loan pool and IBNR components of the collective assessment for current market conditions.

For select portions of the corporation's portfolio, the above process is tailored to capture the unique characteristics of these loans to identify and measure impairment more accurately. For these loans, the individual loss event is considered to be 165 days past due. For the collective allowance, the corporation considers the historical movement of performing loans to impaired status along with the calculation of expected future cash flows estimated using historical probabilities of default and loss given default.

Venture capital investments

Venture capital investments include investments held by Avrio Fund I and Avrio Fund II. Avrio Subordinated Debt Fund held no investments at March 31, 2013.

The corporation has designated its venture capital investments at fair value through profit or loss, as they are managed and their performance is evaluated on a fair value basis in accordance with a documented investment strategy, with the exception of one investment in associate that was sold during the comparative period. An investment in associate is an entity over which the corporation is able to exert significant influence.

Venture capital investments designated at fair value through profit or loss are accounted for at fair value, using a valuation technique as described under the Estimation Uncertainty heading, with gains and losses reported in the fair value adjustment. Interest on debt is recognized when receivable and included in interest income. Dividends on preferred and common shares are recognized when receivable and declared, respectively, and included in interest income. Royalty and fee income are also recognized when receivable and included in interest income.

2. Significant accounting policies (continued)

Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the equipment or leasehold improvement. Subsequent expenditures, including replaced parts, are included in the equipment or leasehold improvement's carrying value or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the corporation and the cost of the item can be measured reliably. The carrying value of the replaced part is derecognized. All repair and maintenance costs are expensed during the financial period in which they are incurred.

Depreciation begins when the equipment or leasehold improvement is available for use by the corporation. Depreciation is calculated using the straight-line method to allocate the cost less estimated residual value of the asset over the following terms:

	Terms
Office equipment and furniture	5 years
Computer equipment	3 or 5 years
Leasehold improvements	Shorter of lease term or asset's useful economic life

The residual values and useful lives are reviewed annually and adjusted, if appropriate. Equipment and leasehold improvements are reviewed annually for impairment and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss would be recorded to reduce the carrying value to the recoverable amount if the carrying value is greater than the estimated recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with the carrying value and are included in facilities, software and equipment expense.

Computer software

Computer software is recorded at cost less accumulated amortization. Expenditures on internally developed software are recognized as assets when the corporation is able to demonstrate its intention and ability to complete the development, to use the software in a manner that will generate future economic benefits and to reliably measure the costs to complete the development. The capitalized costs of internally developed software include all costs directly attributable to developing the software.

Amortization begins when the software is available for use by the corporation. Amortization is recorded over the estimated useful life of three or five years using the straight-line method.

Software is reviewed annually for indications of impairment or changes in estimated future economic benefits. If such indications exist, the carrying value is analyzed to assess whether it is fully recoverable. An impairment loss would be recorded to reduce the carrying value to the recoverable amount if the carrying value is greater than the estimated recoverable amount.

Equipment under operating leases

Equipment under operating leases is recorded at cost less accumulated depreciation. Equipment is depreciated on a straight-line basis over the term of the lease. Lease income from operating leases is recognized on a straight-line basis over the term of the lease and included in interest income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying value of the leased asset and recognized on a straight-line basis over the lease term.

2. Significant accounting policies (continued)

Post-employment benefits

The corporation has a registered defined benefit pension plan, three supplemental defined benefit pension plans, a registered defined contribution pension plan, a supplemental defined contribution plan and other defined benefit plans that provide retirement and post-employment benefits to most of its employees. The defined benefit pension plan is based on the number of years of service and the average salary of the five highest-paid consecutive years of service. It is inflation-protected. The supplemental defined benefit and supplemental defined contribution pension plans are available for employees with employment income greater than pensionable earnings.

Retirement benefit plans are contributory health-care plans with employee contributions adjusted annually and a non-contributory life insurance plan. Post-employment plans provide short-term disability income benefits, severance entitlements after employment and health-care benefits to employees on long-term disability.

The accrued benefit obligations for pension and other defined benefit plans are actuarially determined using the projected unit credit actuarial valuation method. This method incorporates management's best estimate of future salary levels, other cost escalation, employees' retirement ages and other actuarial factors.

For the purpose of calculating the expected return on plan assets, these assets are valued at fair value.

Actuarial gains or losses arise from the difference between the actual long-term rate of return on plan assets for the period and the expected long-term rate of return on plan assets for the period or from changes in actuarial assumptions used to determine the accrued benefit obligations. Actuarial gains and losses are recognized in OCI as incurred and flow into retained earnings in the Consolidated Balance Sheet.

Past service costs arising from plan amendments are recognized immediately in benefits expense to the extent that the benefits are already vested and are otherwise recognized on a straight-line basis over the average period until the benefits become vested.

The defined benefit asset or liability represents the present value of the defined benefit obligation adjusted for unrecognized past service costs and reduced by the fair value of plan assets. The defined benefit asset is limited to the value determined by the asset ceiling. The value of the asset is restricted to the sum of any unrecognized actuarial losses and past service costs, plus the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plan.

Contributions to the defined contribution plan are recognized as an expense when employees have rendered service entitling them to the contributions. Unpaid contributions are recognized as a liability.

Insurance

The corporation sells group creditor life and accident insurance to its customers through a program administered by a major insurance provider. The insurance premiums are actuarially determined and are accrued when receivable and recorded in net insurance income.

Insurance claims expense, included in net insurance income, consists of paid claims that are recorded as incurred throughout the year, an accrual for insurance claims payable at year-end for claims that have been incurred as at the balance sheet date and adjustments to the reserve for insurance claims. The reserve for insurance claims represents the liability that, together with estimated future premiums and net investment income on insurance reserve assets, will provide for outstanding claims, estimated future benefits, taxes (other than income taxes) and expenses. The reserve for insurance claims is recorded at fair value and included in other liabilities. The reserve is actuarially determined using the Canadian Asset Liability Method and prepared on a going concern basis, taking into account the appropriate degree of risk inherent in the obligation, as described in Note 24. Changes in estimates are recorded when made and are included in net insurance income.

2. Significant accounting policies (continued)

The corporation maintains a restricted insurance reserve asset, which is included in other assets, with the insurance provider to fund future claim payments. Interest is paid on the insurance reserve asset by the insurance provider annually and is recorded in other income.

Expenses related to administering the insurance program are recorded in other expenses. The accrual for insurance claims payable is classified as other financial liabilities, measured at amortized cost and included in accounts payable and accrued liabilities.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are classified as other financial liabilities and measured at amortized cost.

Borrowings

Borrowings are undertaken with the approval of the Minister of Finance. Borrowings are direct obligations of the corporation and therefore constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

Structured notes form part of the corporation's funding program. Structured notes are hybrid securities that combine fixed-income products with derivative financial instruments. The corporation designated its structured notes at fair value through profit or loss to record them on a basis consistent with the fair value changes in their related derivatives.

Borrowings designated at fair value through profit or loss are accounted for at fair value, using a valuation technique as described under the Estimation Uncertainty heading, with gains and losses reported in the fair value adjustment.

Other borrowings are classified as other financial liabilities and measured at amortized cost.

Interest incurred on all borrowings is recorded on an accrual basis and recognized in interest expense using the effective interest rate method.

Transition loan liabilities

The corporation records a transition loan liability that represents amounts owing to third parties upon the signing of a contract that requires the corporation to pay amounts in accordance with a disbursement schedule relating to undisbursed transition loans, which are included in loans receivable. As payments are made in accordance with the transition loan disbursement schedule, the applicable amount of the transition loan liability is reduced. Transition loan liabilities are recorded at amortized cost.

2. Significant accounting policies (continued)

Government assistance

The corporation is one of the financial institutions participating in the HILLRP. Under the HILLRP, the Government of Canada has established a loan loss reserve fund to share the net credit losses on eligible loans provided to hog operations with certain financial institutions. The corporation is responsible for all credit losses beyond those covered by the loan loss reserve fund and must meet certain eligibility requirements to access the reserve fund. The amount of funds available from the loan loss reserve fund to the corporation for any non-performing eligible loans are 90%, 80% and 70% of net credit losses in years one to three, four to six and seven to 15, respectively. Amounts held by the corporation to which it is not entitled are paid back to the Government of Canada at the end of the program. The corporation's deadline for disbursing the loans eligible under this program has passed and no further loan loss reserve fund instalments are due from the Government of Canada.

Management estimates the amount of the loan loss reserve fund to which the corporation is entitled under the HILLRP. This estimate is accounted for as a reduction to the corporation's provision for credit losses. The remaining amount of the loan loss reserve fund, to which the corporation is not entitled, is recorded as long-term debt. Interest on this long-term debt is recorded in interest expense.

Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issuance or disposal of a financial asset or liability. Transaction costs relating to loans and receivables and borrowings classified as other liabilities are deferred and amortized over the instrument's expected useful life using the effective interest rate method. Transaction costs related to all other financial instruments are expensed as incurred.

Operating lease payments

Payments on operating lease agreements are expensed on a straight-line basis over the lease term. Associated costs are expensed as incurred.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date. Income and expenses are translated at the monthly average exchange rates prevailing throughout the year. Exchange gains and losses on loans and receivables are included in interest income, and exchange gains and losses on borrowings are included in interest expense.

Segmented information

The corporation is organized and managed as a single business segment, which is agriculture lending. All of the corporation's revenues are within Canada.

Significant management judgments in applying accounting policies

The following are critical management judgments used in applying the corporation's accounting policies.

Basis of consolidation
Management has determined that Avrio Fund I, Avrio Fund II and Avrio Subordinated Debt Fund meet the criteria of special purpose entities, and the substance of the relationship between the corporation and Avrio Fund I, Avrio Fund II and Avrio Subordinated Debt Fund indicates that the corporation controls Avrio Fund I, Avrio Fund II and Avrio Subordinated Debt Fund in accordance with SIC-12 – Consolidation – Special Purpose Entities.

2. Significant accounting policies (continued)

Finance leases receivable
In applying the classification of leases in IAS 17 – Leases, management considers leases of agricultural equipment to be either finance or operating lease arrangements. In some cases, the lease transaction is not always conclusive and management uses judgment in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership.

Computer software
A significant portion of the corporation's computer software expenditures relates to software that is developed as part of internal infrastructures and, to a lesser extent, purchased directly from suppliers. Management has a process to monitor the progress of internal research and development projects. Significant judgment is required in distinguishing between the research and development phases. Research costs are expensed as incurred, whereas development costs are recognized as an asset when all criteria are met. Management monitors whether the recognition requirements for development costs continue to be met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems after the time of recognition.

Estimation uncertainty

The preparation of the consolidated financial statements in accordance with IFRS requires that management make judgments, estimates and assumptions concerning the future that affect the reported amounts in the consolidated financial statements and accompanying notes. Judgments, estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these judgments, estimates and assumptions. Information about the significant judgments, estimates and assumptions that are critical to the recognition and measurement of assets, liabilities, income and expense are discussed below.

Allowance for credit losses
The corporation reviews its loan and lease portfolio to assess impairment. The corporation makes judgments when determining whether a loss event has occurred, and makes estimates and assumptions in measuring the resulting impairment loss. Management uses best estimates based on historical loss experience for loans and leases with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Defined benefit liability
The estimate of the defined benefit liability for pension and non-pension post-retirement benefits is actuarially determined and incorporates management's best estimate of future salary levels, other cost escalation, employees' retirement ages and other actuarial assumptions. One of the more significant assumptions used is the discount rate. Management determines the appropriate discount rate at the end of each year. This is the interest rate that determines the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, management considers the interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Any changes in these assumptions will affect the carrying values of defined benefit liabilities.

Reserve for insurance claims
The reserve for insurance claims is based on certain estimates and assumptions, including expected future mortality experience and interest rates. Higher mortality experience and increased interest rates would be financially adverse to the corporation. The corporation's mortality experience is combined with industry experience, since the corporation's own experience is insufficient to be statistically credible.

2. Significant accounting policies (continued)

Useful lives of depreciable assets
During the software development process and when new equipment, leasehold improvements and computer software are being purchased, management's judgment and estimates are required to determine the expected period of benefit over which capitalized costs should be amortized. Management reviews the useful lives of depreciable assets at each reporting date. Actual results may vary because of technical obsolescence, particularly for software and information technology equipment due to rapidly changing technology and the uncertainty of the software development process.

Fair value of financial instruments
The fair value of financial instruments is determined based on published quoted market prices or valuation techniques when quoted market prices are not available. Fair values are point-in-time estimates that may change significantly in subsequent reporting periods due to changes in market conditions. Fair value techniques use models and assumptions about future events, based on either observable or non-observable market inputs. As such, fair values are estimates involving uncertainties and may be significantly different when compared to another financial institution's value for a similar contract. The methods used to value the corporation's financial instruments measured at fair value are as follows:

- The estimated fair value of temporary investments is calculated by discounting contractual cash flows at interest rates prevailing at the reporting date for equivalent securities.

- The estimated fair value of derivative financial assets and liabilities is determined using market standard valuation techniques. Where call or extension options exist, the value of these options is determined using current market measures for interest rates and currency exchange rates and by taking volatility levels and estimations for other market-based pricing factors into consideration. Market-observed credit spreads, where available, are a key factor in establishing valuation adjustments against the corporation's counterparty credit exposures. Where the counterparty does not have an observable credit spread, a proxy that reflects the counterparty's credit profile is used.

- Venture capital investments in shares that are traded on an exchange are valued based on the bid prices as at the reporting date. Venture capital investments in shares of privately held companies are valued based on guidelines issued by the venture capital industry, using market-based valuation methodologies. Estimated fair value of venture capital debt investments is calculated by discounting contractual cash flows at interest rates prevailing at the reporting date with equivalent terms to maturity.

- The estimated fair value of structured notes is calculated by discounting contractual cash flows at interest rates prevailing at the reporting date for equivalent terms to maturity or by using quoted market prices where available. Inputs used to determine the fair value include currency exchange rates, credit spreads, yield curves and volatility levels. Where embedded options (call features) exist, fair values are derived using market standard valuation models and techniques. The value of the embedded options is determined using market measures for interest rates, currency exchange rates and volatility levels and estimations for other market-based pricing factors.

2. Significant accounting policies (continued)

Accounting standards issued but not yet effective

The corporation has reviewed the new standards and amendments that have been issued but are not yet effective and determined that the following may have an impact on the corporation. Management is in the process of assessing the impact of these standards and amendments on the corporation's financial statements and accounting policies.

Standard	Details	Date of initial application
IAS 1 – Presentation of Financial Statements	The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time will be presented separately from items that will never be reclassified. It is anticipated that the amendment will affect groupings and presentation in the Consolidated Statement of Comprehensive Income.	April 1, 2013
IFRS 10 – Consolidated Financial Statements	The new standard replaces the consolidation requirements in IAS 27 – Consolidated and Separate Financial Statements and SIC-12 – Consolidation – Special Purpose Entities. It establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. No significant changes are anticipated as a result of this standard.	April 1, 2013
IFRS 12 – Disclosure of Interests in Other Entities	The new standard is on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. It is anticipated that this standard will result in increased disclosure on venture capital investments.	April 1, 2013
IFRS 13 – Fair Value Measurement	The new standard establishes new guidance on fair value measurement and disclosure requirements. It is anticipated that this standard will result in increased disclosure on fair value measurement.	April 1, 2013
IAS 19 – Employee Benefits	The standard was amended to improve the recognition, presentation and disclosure of defined benefit plans. The amendments introduce a calculation for net interest costs, which will be included in benefits expense. Under the net interest method, plan assets are multiplied by the same discount rate used to calculate the interest expense on the defined benefit liability, rather than the previous methodology that used the expected rate of return, to determine the interest income on the plan assets. Under the new standard, the fair value of refundable tax assets will be calculated as the present value of future reimbursements. Under the existing standard, fair value is the full value of the refundable tax assets. It is anticipated that pension assets and retained earnings will decrease by approximately $7.5 million on April 1, 2013.	April 1, 2013
IAS 28 – Investments in Associates	This standard was reissued as Investments in Associates and Joint Ventures, as a result of the new standards IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements and IFRS 12 – Disclosure of Interests in Other Entities. No significant changes are anticipated as a result of this standard.	April 1, 2013
IAS 32 – Financial Instruments: Presentation	The amended standard was issued together with the amended IFRS 7 – Financial Instruments: Disclosures to clarify the guidance on the offsetting of financial assets and financial liabilities.	April 1, 2014
IFRS 7 – Financial Instruments: Disclosures	The amended standard was issued together with the amended IAS 32 – Financial Instruments: Presentation to enhance disclosures about the offsetting of financial assets and financial liabilities.	April 1, 2015
IFRS 9 – Financial Instruments	The new standard provides requirements for classifying and measuring financial assets and liabilities. This standard is the first in a three-phase project in progress by the IASB to replace IAS 39 – Financial Instruments: Recognition and Measurement in its entirety. It is anticipated that this standard will result in a change in classification of the corporation's temporary investments from AFS to fair value through profit and loss.	April 1, 2015

3. Prior period error

As a result of a review of the terms of the post-retirement and post-employment non-pension benefit plan of the corporation as at March 31, 2013, errors in the 2011-12 consolidated financial statements balances were discovered. Incorrect information related to the cost sharing structure for life insurance premiums had been used in the estimation of the defined benefit obligation of this plan. The corporation has retroactively corrected the error and restated the consolidated financial statements for the year ended March 31, 2012. The restatement decreased retirement benefit liabilities and increased retained earnings as at April 1, 2011, and March 31, 2012, by $4.5 million and $6.2 million, respectively. The restatement increased net income and other comprehensive income for the year ended March 31, 2012, by $0.5 million and $1.1 million, respectively.

4. Temporary investments

($ thousands)	**March 31, 2013** Carrying value	**March 31, 2013** Yield	March 31, 2012 Carrying value	March 31, 2012 Yield
Short-term instruments	**$ 164,781**	**1.07%**	$ 83,813	1.09%

Short-term instruments consist of deposit notes, bankers' acceptance and treasury bills issued by institutions with credit ratings of R-1M or higher (2012 – R-1M or higher) as rated by the Dominion Bond Rating Service. As at March 31, 2013, the largest total investment in any one institution was $55.0 million (2012 – $63.9 million).

All temporary investments have an initial term to maturity of 91 to 365 days and will mature within four months of the balance sheet date.

5. Derivative financial instruments

($ thousands)	**March 31, 2013**	March 31, 2012
Derivative financial assets		
Derivatives designated as cash flow hedges	**$ 71,172**	$ 67,408
Derivatives classified as HFT	**11**	490
	$ 71,183	$ 67,898
Derivative financial liabilities		
Derivatives classified as HFT	**$ –**	$ 84

Types of derivative contracts

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest. Notional amounts upon which interest payments and receipts are based are not exchanged. Cross-currency interest rate swaps are transactions in which two parties exchange notional amounts in different currencies at inception and maturity, as well as interest flows, on the exchanged amounts on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest.

The derivative contracts entered into by the corporation are over-the-counter instruments.

5. Derivative financial instruments (continued)

Cash flow hedges

Cash flow hedges consist of interest rate swaps. The corporation is exposed to variability in future interest cash flows on non-trading assets that bear interest at variable rates. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for the financial assets on the basis of their contractual terms and other relevant factors. The principal balances and interest cash flows over time form the basis for identifying the effective portion of gains and losses on the derivatives designated as cash flow hedges of forecasted transactions.

As at March 31, 2013, the estimated amount of existing net gains reported in AOCI that is expected to be transferred to net income within the next 12 months is $22.6 million.

The maximum length of time over which the corporation is hedging its exposure to the variability in future cash flows for anticipated transactions is nine years.

Notional principal amounts and term to maturity

($ thousands)		**March 31, 2013** **Within 1 year**	**1 – 5 years**	**Over 5 years**	**Total**
Interest rate swaps					
Receive	**Pay**				
Fixed	Floating	**$ 186**	**$ 94,489**	**$ 237,994**	**$ 332,669**
Cross-currency	Fixed	**–**	**–**	**–**	**–**
		$ 186	**$ 94,489**	**$ 237,994**	**$ 332,669**

($ thousands)		March 31, 2012 Within 1 year	1 – 5 years	Over 5 years	Total
Interest rate swaps					
Receive	**Pay**				
Fixed	Floating	$ 5,000	$ 94,675	$ 237,994	$ 337,669
Cross-currency	Fixed	3,365	–	–	3,365
		$ 8,365	$ 94,675	$ 237,994	$ 341,034

5. Derivative financial instruments (continued)

Counterparty credit risk

Derivatives that have a positive fair value are subject to counterparty risk because the positive fair value indicates that over time the corporation can expect to receive cash flows from the counterparties based on the terms of the contract and current market conditions.

The net fair values of the derivative financial instruments are as follows:

	March 31, 2013		
($ thousands)	**Positive fair value**	**Negative fair value**	**Net fair value**
Interest rate swaps	**$ 71,183**	**$ –**	**$ 71,183**
Cross-currency interest rate swaps	–	–	–
Fair value	**71,183**	**–**	**71,183**
Impact of master netting agreements	–	–	–
	$ 71,183	**$ –**	**$ 71,183**

	March 31, 2012		
($ thousands)	Positive fair value	Negative fair value	Net fair value
Interest rate swaps	$ 67,898	$ –	$ 67,898
Cross-currency interest rate swaps	–	84	(84)
Fair value	67,898	84	67,814
Impact of master netting agreements	(57)	(57)	–
	$ 67,841	$ 27	$ 67,814

The corporation does not anticipate any significant non-performance by counterparties because all counterparties are rated Aa3, A+ and AA or higher, as rated by Moody's Investors Service (Moody's), Standard and Poor's Ratings Services (S&P), and Dominion Bond Rating Service (DBRS), respectively. The largest cumulative notional amount contracted with any institution as at March 31, 2013, was $139.3 million (2012– $139.3 million), and the largest net fair value of contracts with any institution as at March 31, 2013, was $25.3 million (2012 – $23.8 million). The corporation mitigates the credit exposure on multiple derivative transactions by entering into master netting agreements with counterparties as outlined in Note 24. These agreements create the legal right of offset of exposure in the event of default.

Using reasonable possible alternative assumptions for valuing derivatives would not have a material effect on the corporation's financial position or earnings. To determine reasonably possible alternative assumptions, the corporation adjusted key unobservable model inputs. These adjustments included de-correlating interest rates and subjecting parameters to a large shift.

6. Loans receivable – net

The following table summarizes the contractual maturity and effective interest rates of the performing loans receivable as at March 31, 2013. The yields are computed on a weighted-average basis by amount and term. Floating-rate loans are linked to the bank prime rate and re-priced with changes in the rate.

	March 31, 2013			
	Term to maturity			
($ thousands)	Within 1 year	1 – 5 years	Over 5 years	Total
Floating	$ 2,538,239	$ 12,289,074	$ 920,350	$ 15,747,663
Yield	4.38%	3.89%	4.04%	3.98%
Fixed	1,402,754	5,459,842	2,223,485	9,086,081
Yield	4.07%	4.52%	5.03%	4.58%
Performing loans	3,940,993	17,748,916	3,143,835	24,833,744
Impaired loans				321,209
Deferred loan fees				(21,618)
Loans receivable – gross				25,133,335
Allowance for credit losses				(640,003)
Loans receivable – net				$ 24,493,332

	March 31, 2012			
	Term to maturity			
($ thousands)	Within 1 year	1 – 5 years	Over 5 years	Total
Floating	$ 1,241,440	$ 12,789,350	$ 779,763	$ 14,810,553
Yield	3.89%	3.98%	3.79%	3.96%
Fixed	1,089,958	5,348,495	1,691,161	8,129,614
Yield	5.20%	4.85%	5.67%	5.07%
Performing loans	2,331,398	18,137,845	2,470,924	22,940,167
Impaired loans				285,118
Deferred loan fees				(23,026)
Loans receivable – gross				23,202,259
Allowance for credit losses				(621,950)
Loans receivable – net				$ 22,580,309

Management estimates that annually, over the next three years, approximately 6.6% (2012 – approximately 6.3%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2013, $115.4 million (2012 – $97.3 million) of loans receivable were denominated in U.S. dollars (USD).

6. Loans receivable – net (continued)

Concentrations of credit risk

The concentrations of performing loans and impaired loans by enterprise and geographic area are as follows:

Enterprise distribution

($ thousands)	Performing **March 31, 2013**	Performing March 31, 2012	Impaired **March 31, 2013**	Impaired March 31, 2012
Crops	**$ 9,692,523**	$ 8,458,662	**$ 69,411**	$ 50,828
Dairy	**5,076,094**	4,800,021	**7,905**	15,625
Value-added	**3,427,182**	2,400,461	**79,394**	54,898
Other	**2,304,824**	3,325,268	**30,484**	39,221
Cattle	**1,772,612**	1,330,738	**24,527**	17,897
Poultry	**1,708,482**	1,581,851	**1,445**	1,725
Hogs	**852,027**	1,043,166	**108,043**	104,924
Total	**$ 24,833,744**	$ 22,940,167	**$ 321,209**	$ 285,118

Geographic distribution

($ thousands)	Performing **March 31, 2013**	Performing March 31, 2012	Impaired **March 31, 2013**	Impaired March 31, 2012
Western	**$ 7,553,109**	$ 6,917,923	**$ 95,881**	$ 78,664
Prairie	**5,823,837**	5,385,652	**111,663**	107,593
Ontario	**7,508,063**	6,996,890	**22,690**	21,772
Quebec	**2,945,830**	2,700,004	**56,045**	41,499
Atlantic	**1,002,905**	939,698	**34,930**	35,590
Total	**$ 24,833,744**	$ 22,940,167	**$ 321,209**	$ 285,118

7. Finance leases receivable – net

($ thousands)	**March 31, 2013**	March 31, 2012
Total minimum finance lease payments receivable		
Less than one year	**$ 5,089**	$ 3,846
Between one and five years	**9,042**	6,628
Finance leases receivable – gross	**14,131**	10,474
Unearned finance income	**(1,054)**	(789)
Allowance for credit losses	**(169)**	(144)
Finance leases receivable – net	**$ 12,908**	$ 9,541

The corporation retains as collateral a security interest in the equipment associated with finance leases. The maximum term for finance leases receivable is five years.

8. Allowance for credit losses

($ thousands)	March 31, 2013 Loans receivable	March 31, 2013 Finance leases receivable	March 31, 2013 Total	March 31, 2012 Loans receivable	March 31, 2012 Finance leases receivable	March 31, 2012 Total
Individual allowance, beginning of year	$ 140,800	$ –	$ 140,800	$ 157,734	$ –	$ 157,734
Provision for credit losses	31,476	–	31,476	13,099	–	13,099
Losses covered under HILLRP	9,391	–	9,391	2,623	–	2,623
Unwind adjustment on impaired loans	3,200	–	3,200	535	–	535
Writeoffs	(35,602)	–	(35,602)	(36,074)	–	(36,074)
Recoveries	1,747	–	1,747	2,883	–	2,883
Individual allowance, end of year	151,012	–	151,012	140,800	–	140,800
Collective allowance, beginning of year	481,150	144	481,294	497,644	84	497,728
Provision for credit losses	6,571	25	6,596	(11,378)	60	(11,318)
Losses covered under HILLRP	3,552	–	3,552	(1,682)	–	(1,682)
Writeoffs	(2,451)	–	(2,451)	(3,608)	–	(3,608)
Recoveries	169	–	169	174	–	174
Collective allowance, end of year	488,991	169	489,160	481,150	144	481,294
Total allowance	$ 640,003	$ 169	$ 640,172	$ 621,950	$ 144	$ 622,094

9. Venture capital investments

Carrying value by type of investment

($ thousands)		March 31, 2013		March 31, 2012
Preferred shares	$	**37,624**	$	29,954
Debt		**19,513**		14,003
Common shares		**16,229**		9,570
	$	**73,366**	$	53,527

As at March 31, 2013, $0.2 million (2012 – $0.1 million) of venture capital debt investments is due to the corporation within one year and $19.3 million (2012 – $13.9 million) is due between one and five years.

Concentrations of venture capital investments by sector

($ thousands)		March 31, 2013		March 31, 2012
Food processing and manufacturing	$	**35,242**	$	19,051
Bio-based fuels and chemicals		**20,967**		18,938
Agriculture biotechnology		**17,157**		15,538
	$	**73,366**	$	53,527

For the year ended March 31, 2013, the total amount of net losses realized on disposal of venture capital investments designated at fair value through profit or loss and reported in fair value adjustment was $12.2 million (2012 – net realized gain of $2.1 million).

The prior year sale of the investment in associate had a realized gain recorded in other income of $1.4 million (2012 - $34.0 million). Management anticipates that further gains of approximately $5.4 million related to the prior year sale will be realized in future periods, subject to fulfilment of certain conditions of the sale agreement.

The total amount of fees, interest and dividends recorded in interest income during the year for venture capital investments designated at fair value through profit or loss was $2.3 million (2012 – $2.4 million).

In addition to the above investments, the corporation has loans receivable from venture capital investees in the amount of $20.9 million (2012 – $27.7 million) and guarantees from venture capital investees in the amount of $0.2 million (2012 – $nil).

The venture capital investment portfolio exposes the corporation to credit risk. Venture capital investments are typically secured by a general security agreement, assignment of life insurance proceeds and personal guarantees. As at March 31, 2013, the gross amount of venture capital debt investments that were in arrears was $nil (2012 – $nil).

The potential effect of using reasonable possible alternative assumptions for valuing venture capital investments that are measured at fair value would not have a material effect on the corporation's financial position or earnings.

10. Equipment and leasehold improvements

($ thousands)	Leasehold improvements	Office equipment and furniture	Computer equipment	Total
Cost				
Balance as at March 31, 2011	$ 41,131	$ 26,775	$ 11,550	$ 79,456
Additions	4,480	2,120	1,548	8,148
Disposals	(542)	(391)	(1,168)	(2,101)
Balance as at March 31, 2012	45,069	28,504	11,930	85,503
Additions	3,758	1,078	2,219	7,055
Disposals	(1,415)	(3,398)	(873)	(5,686)
Balance as at March 31, 2013	**$ 47,412**	**$ 26,184**	**$ 13,276**	**$ 86,872**
Accumulated depreciation				
Balance as at March 31, 2011	$ 21,906	$ 19,384	$ 8,852	$ 50,142
Depreciation	6,001	2,928	1,841	10,770
Disposals	(509)	(388)	(1,167)	(2,064)
Balance as at March 31, 2012	27,398	21,924	9,526	58,848
Depreciation	5,961	2,690	1,554	10,205
Disposals	(1,380)	(3,398)	(870)	(5,648)
Balance as at March 31, 2013	**$ 31,979**	**$ 21,216**	**$ 10,210**	**$ 63,405**
Carrying value				
March 31, 2012	$ 17,671	$ 6,580	$ 2,404	$ 26,655
March 31, 2013	**15,433**	**4,968**	**3,066**	**23,467**

11. Computer software

($ thousands)	Internally developed	Purchased	Total
Cost			
Balance as at March 31, 2011	$ 94,491	$ 9,554	$ 104,045
Additions	8,948	640	9,588
Disposals	–	–	–
Balance as at March 31, 2012	103,439	10,194	113,633
Additions	10,580	243	10,823
Disposals	(3,942)	(389)	(4,331)
Balance as at March 31, 2013	**$ 110,077**	**$ 10,048**	**$ 120,125**
Accumulated amortization			
Balance as at March 31, 2011	$ 56,440	$ 5,481	$ 61,921
Amortization	10,578	1,043	11,621
Disposals	–	–	–
Balance as at March 31, 2012	67,018	6,524	73,542
Amortization	11,528	1,055	12,583
Disposals	(3,940)	(389)	(4,329)
Balance as at March 31, 2013	**$ 74,606**	**$ 7,190**	**$ 81,796**
Carrying value			
March 31, 2012	$ 36,421	$ 3,670	$ 40,091
March 31, 2013	**35,471**	**2,858**	**38,329**

11. Computer software (continued)

Included in the carrying value as at March 31, 2013, is $17.0 million (2012 – $22.0 million) consisting of internally developed software related to the business process and technology transformation program, which is being developed to enhance speed, reduce manual effort and provide the corporation with the capability to enhance its technological agility. The remaining amortization period of the assets from this program is between two and four years.

Research and development costs related to internally developed computer software in the amount of $4.3 million (2012 – $0.7 million) have been included within facilities, software and equipment expenses.

12. Equipment under operating leases

($ thousands)		
Cost		
Balance as at March 31, 2011	$	25,296
Additions		17,398
Disposals		(3,035)
Balance as at March 31, 2012		39,659
Additions		23,380
Disposals		(4,203)
Balance as at March 31, 2013	**$**	**58,836**
Accumulated depreciation		
Balance as at March 31, 2011	$	6,219
Depreciation		5,109
Balance as at March 31, 2012		11,328
Depreciation		7,422
Balance as at March 31, 2013	**$**	**18,750**
Carrying value		
March 31, 2012	$	28,331
March 31, 2013		**40,086**

13. Other assets

($ thousands)		**March 31, 2013**		March 31, 2012
Insurance reserve assets	**$**	**16,487**	$	17,559
Real estate property held for sale		**277**		682
Other		**61**		66
	$	**16,825**	$	18,307

14. Borrowings

Short-term debt

($ thousands)	March 31, 2013	March 31, 2012
Government of Canada debt		
Floating-rate borrowings	**$ 6,156,912**	$ 6,051,606
Fixed-rate borrowings	**3,614,128**	3,171,566
	9,771,040	9,223,172
Retail and institutional fixed-rate notes	**152,153**	238,994
U.S. dollar fixed-rate promissory notes (1)	**115,105**	94,873
Cash collateral due to derivative counterparties	**7,406**	6,156
Structured note index-linked	**198**	–
Structured note double-up coupon	**–**	5,471
	$ 10,045,902	$ 9,568,666

(1) $113.3 million USD (2012 – $95.0 million USD)

Short-term debt by maturity date and yield

	March 31, 2013				
	Government of Canada		Capital markets		
($ thousands)	Carrying value	Yield	Carrying value	Yield	Total
From 0 – 3 months	**$ 5,231,718**	**1.02%**	**$ 216,516**	**1.93%**	**$ 5,448,234**
From 4 – 6 months	**1,939,831**	**1.11%**	**198**	**1.03%**	**1,940,029**
From 7 – 9 months	**1,306,778**	**1.15%**	**50,742**	**5.03%**	**1,357,520**
From 10 – 12 months	**1,292,713**	**1.03%**	**–**	**–**	**1,292,713**
Cash collateral due to derivative counterparties	**–**	**–**	**7,406**	**1.85%**	**7,406**
	$ 9,771,040	**–**	**$ 274,862**	**–**	**$10,045,902**

	March 31, 2012				
	Government of Canada		Capital markets		
($ thousands)	Carrying value	Yield	Carrying value	Yield	Total
From 0 – 3 months	$ 4,478,096	1.08%	$ 302,522	2.91%	$ 4,780,618
From 4 – 6 months	2,055,979	0.88%	–	–	2,055,979
From 7 – 9 months	1,618,695	0.96%	5,471	1.18%	1,624,166
From 10 – 12 months	1,070,402	0.90%	31,345	4.03%	1,101,747
Cash collateral due to derivative counterparties	–	–	6,156	1.00%	6,156
	$ 9,223,172	–	$ 345,494	–	$ 9,568,666

The corporation has a demand operating line of credit, which provides overdraft protection in the amount of $30.0 million (2012 – $30.0 million). Indebtedness under this agreement is unsecured and this credit facility does not expire. Any draws made throughout the year on this facility are reversed the next day. As at March 31, 2013, there were no draws on this facility (2012 – $nil).

14. Borrowings (continued)

Long-term debt

($ thousands)	March 31, 2013	March 31, 2012
Government of Canada debt		
Floating-rate borrowings	**$ 9,272,277**	$ 8,295,816
Fixed-rate borrowings	**2,217,853**	1,909,411
	11,490,130	10,205,227
Retail and institutional fixed-rate notes	**415,904**	567,280
Structured note index-linked	**–**	222
	$ 11,906,034	$ 10,772,729

Long-term debt by maturity date and yield

	March 31, 2013				
	Government of Canada		**Capital markets**		
($ thousands)	**Carrying value**	**Yield**	**Carrying value**	**Yield**	**Total**
From 1 – 2 years	**$ 5,032,716**	**1.01%**	**$ –**	**–**	**$ 5,032,716**
From 2 – 3 years	**3,609,526**	**1.80%**	**108,221**	**4.37%**	**3,717,747**
From 3 – 4 years	**1,719,557**	**1.05%**	**–**	**–**	**1,719,557**
From 4 – 5 years	**603,446**	**1.69%**	**–**	**–**	**603,446**
Over 5 years	**524,885**	**2.16%**	**307,683**	**4.37%**	**832,568**
	$ 11,490,130		**$ 415,904**		**$ 11,906,034**

	March 31, 2012				
	Government of Canada		Capital markets		
($ thousands)	Carrying value	Yield	Carrying value	Yield	Total
From 1 – 2 years	$ 3,485,947	1.20%	$ 152,361	4.37%	$ 3,638,308
From 2 – 3 years	2,786,372	0.99%	–	–	2,786,372
From 3 – 4 years	2,514,257	1.04%	108,038	4.37%	2,622,295
From 4 – 5 years	907,491	1.03%	–	–	907,491
Over 5 years	511,160	2.16%	307,103	4.37%	818,263
	$ 10,205,227		$ 567,502		$ 10,772,729

14. Borrowings (continued)

The redemption of structured notes is controllable by the corporation. At the inception of a structured note, derivative swap agreements are entered into concurrently to economically hedge the embedded interest rate and currency exposure. In practice, the corporation will only redeem a structured note if the swap counterparty exercises its right to terminate the related derivative swap agreement. These derivative contracts ensure that the corporation will receive proceeds from the swap to meet the requirements of servicing and settling the debt obligation. The corporation has, in substance, created floating-rate debt by issuing notes at fixed rates and entering into swap contracts whereby the corporation receives fixed-rate interest and pays floating-rate interest, and vice versa. In swapping out of the underlying note issue, the potential market risk has been converted to credit risk. Credit exposure on derivative financial instruments is further discussed in Note 24.

As at March 31, 2013, the amount the corporation is contractually required to pay on structured notes at maturity was $0.2 million (2012 – $5.2 million), a $nil (2012 - $0.4 million) difference from its carrying value. The fair value change in structured notes attributable to changes in the corporation's credit risk in the current year is $nil (2012 - $0.5 million) and, cumulatively, measured from the later of April 1, 2007, or the initial recognition of the structured notes, is $0.1 million (2012 - $0.7 million). The change in fair value attributable to changes in the corporation's credit risk has been calculated using the Government of Canada Agency Curve as a proxy for the credit risk of the corporation. The potential effect of using reasonable possible alternative assumptions for valuing structured notes would not have a material effect on the corporation's financial position or earnings. To determine reasonably possible alternative assumptions, the corporation adjusted key unobservable model inputs. These adjustments included de-correlating interest rates and subjecting parameters to a large shift.

15. Post-employment benefits

Financial position of benefit plans

The corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at March 31 of each year.

The amounts recognized in the Consolidated Balance Sheet are as follows:

($ thousands)	Registered pension plan **March 31, 2013**	March 31, 2012	April 1, 2011
Present value of funded defined benefit obligations	**$ (537,799)**	$ (474,091)	$ (343,226)
Fair value of plan assets	**414,691**	338,641	315,593
Net liability for defined benefit obligations (1)	**$ (123,108)**	$ (135,450)	$ (27,633)

($ thousands)	Supplemental pension plans **March 31, 2013**	March 31, 2012	April 1, 2011
Present value of funded defined benefit obligations	**$ (47,941)**	$ (41,391)	$ (24,462)
Fair value of plan assets	**40,824**	33,110	33,834
Funded status	**(7,117)**	(8,281)	9,372
Present value of unfunded defined benefit obligations	**(11,401)**	(9,546)	(7,606)
Net (liability) asset for defined benefit obligations (1)	**$ (18,518)**	$ (17,827)	$ 1,766

($ thousands)	Other benefits **March 31, 2013**	March 31, 2012 Restated Note 3	April 1, 2011 Restated Note 3
Present value of unfunded defined benefit obligations	**$ (76,478)**	$ (64,620)	$ (46,501)
Net liability for defined benefit obligations (1)	**$ (76,478)**	$ (64,620)	$ (46,501)

(1) The total net liability for defined benefit obligations of all three plans is $218,104 (2012 – $217,897; 2011 – $81,740). This amount is recorded on the Consolidated Balance Sheet as retirement benefit liabilities. The total net asset for defined benefit obligations of all three plans is $nil (2012 – $nil; 2011 – $9,372). This amount is recorded on the Consolidated Balance Sheet in other assets.

15. Post-employment benefits (continued)

Movements in the present value of the defined benefit obligation

($ thousands)	Registered pension plan March 31, 2013	Registered pension plan March 31, 2012	Supplemental pension plans March 31, 2013	Supplemental pension plans March 31, 2012	Other benefits March 31, 2013	Other benefits March 31, 2012 Restated Note 3
Defined benefit obligation, beginning of year	**$ 474,091**	$ 343,226	**$ 50,937**	$ 32,068	**$ 64,620**	$ 46,501
Current service cost	**22,596**	13,669	**2,067**	1,078	**5,220**	3,366
Interest cost	**21,091**	19,579	**2,255**	1,804	**2,948**	2,715
Past service cost	**–**	–	**1,126**	–	**–**	–
Contributions by employees	**4,702**	4,048	**–**	46	**–**	–
Benefits paid	**(10,357)**	(10,007)	**(884)**	(767)	**(726)**	(672)
Actuarial losses	**25,676**	103,576	**3,841**	16,708	**4,416**	12,710
Defined benefit obligation, end of year	**$ 537,799**	$ 474,091	**$ 59,342**	$ 50,937	**$ 76,478**	$ 64,620

Movements in the fair value of plan assets

($ thousands)	Registered pension plan March 31, 2013	Registered pension plan March 31, 2012	Supplemental pension plans March 31, 2013	Supplemental pension plans March 31, 2012	Other benefits March 31, 2013	Other benefits March 31, 2012
Fair value of plan assets, beginning of year	**$ 338,641**	$ 315,593	**$ 33,110**	$ 33,834	**$ –**	$ –
Expected return on plan assets	**23,452**	21,649	**1,171**	1,092	**–**	–
Contributions by corporation	**50,661**	16,364	**6,500**	46	**726**	672
Contributions by employees	**4,702**	4,048	**–**	46	**–**	–
Benefits paid	**(10,357)**	(10,007)	**(637)**	(528)	**(726)**	(672)
Actuarial gains (losses)	**7,592**	(9,006)	**680**	(1,380)	**–**	–
Fair value of plan assets, end of year	**$ 414,691**	$ 338,641	**$ 40,824**	$ 33,110	**$ –**	$ –

Defined benefit costs recognized in net income

($ thousands)	Registered pension plan March 31, 2013	Registered pension plan March 31, 2012	Supplemental pension plans March 31, 2013	Supplemental pension plans March 31, 2012	Other benefits March 31, 2013	Other benefits March 31, 2012 Restated Note 3
Current service cost (1)	**$ 22,596**	$ 13,669	**$ 2,067**	$ 1,078	**$ 5,220**	$ 3,366
Interest on obligation (2)	**21,091**	19,579	**2,255**	1,804	**2,948**	2,715
Past service cost (3)	**–**	–	**1,126**	–	**–**	–
Expected return on plan assets (4)	**(23,452)**	(21,649)	**(1,171)**	(1,092)	**–**	–
	$ 20,235	$ 11,599	**$ 4,277**	$ 1,790	**$ 8,168**	$ 6,081

(1) Total current service cost of $29,883 (2012 – $18,113) is recorded in benefits expense.
(2) Total interest on obligation of $26,294 (2012 – $24,098) is recorded in benefits expense.
(3) Total past service costs of $1,126 (2012 – $nil) is recorded in benefits expense.
(4) Total expected return on plan assets of $24,623 (2012 – $22,741) is netted within benefits expense.

15. Post-employment benefits (continued)

Defined benefit costs recognized in other comprehensive income

($ thousands)		Registered pension plan March 31, 2013		March 31, 2012		April 1, 2011
Experience adjustments on plan liabilities	**$**	**625**	$	(2,973)	$	10,284
Experience adjustments on plan assets		**7,592**		(9,006)		10,032
Changes in assumptions		**(26,301)**		(100,603)		(16,617)
Net actuarial (losses) gains (1)	**$**	**(18,084)**	$	(112,582)	$	3,699

($ thousands)		Supplemental pension plans March 31, 2013		March 31, 2012		April 1, 2011
Experience adjustments on plan liabilities	**$**	**213**	$	(3,853)	$	2,439
Experience adjustments on plan assets		**680**		(1,380)		(218)
Changes in assumptions		**(4,054)**		(12,855)		(1,486)
Net actuarial (losses) gains (1)	**$**	**(3,161)**	$	(18,088)	$	735

($ thousands)		Other benefits March 31, 2013		March 31, 2012 Restated Note 3		April 1, 2011
Experience adjustments on plan liabilities	**$**	**1,519**	$	26	$	81
Experience adjustments on plan assets		**–**		–		–
Changes in assumptions		**(5,935)**		(12,736)		(2,576)
Net actuarial losses (1)	**$**	**(4,416)**	$	(12,710)	$	(2,495)

(1) Net actuarial losses of $25,661 (2012 – $143,380 loss; 2011 – $1,939 gain) are recognized in other comprehensive income.

The cumulative actuarial losses recognized in OCI as at March 31, 2013, were $167.1 million (2012 – $141.4 million).

Plan assets

The percentages of plan assets by asset type based on market values at the most recent actuarial valuation are as follows:

	Registered pension plan		Supplemental pension plans	
	March 31, 2013	March 31, 2012	**March 31, 2013**	March 31, 2012
Equity securities	**59.9%**	60.0%	**98.0%**	99.6%
Debt securities	**32.2%**	34.5%	**1.7%**	0.1%
Real estate	**7.0%**	4.4%	**–**	–
Cash	**0.9%**	1.1%	**0.3%**	0.3%
	100.0%	100.0%	**100.0%**	100.0%

The actual return on plan assets was $32.9 million (2012 – $12.4 million).

15. Post-employment benefits (continued)

Significant assumptions

The significant assumptions used are as follows (weighted-average):

	Registered pension benefits		Supplemental pension plans		Other benefits	
	March 31, 2013	March 31, 2012	**March 31, 2013**	March 31, 2012	**March 31, 2013**	March 31, 2012
Accrued benefit obligation						
Discount rate	**4.00%**	4.25%	**4.00%**	4.25%	**4.00%**	4.25%
Rate of compensation increase	**5.50%**	5.50%	**5.50%**	5.50%	**5.50%**	5.50%
Defined benefit costs						
Discount rate	**4.25%**	5.50%	**4.25%**	5.50%	**4.25%**	5.50%
Expected return on plan assets	**6.50%**	6.75%	**3.25%**	3.25%	**–**	–
Rate of compensation increase	**5.50%**	5.50%	**5.50%**	5.50%	**5.50%**	5.50%

Assumptions regarding future mortality are based on published statistics and mortality tables. As at March 31, 2013, the average life expectancy of an individual retiring at age 65 is 20 years for males and 22 years for females.

The overall expected return on plan assets for each of the registered and supplemental plans is based on the respective portfolios as a whole. The return is based exclusively on historical returns without adjustment.

Assumed health-care cost trend rates are as follows:

	2013	2012
Extended health-care and dental care cost escalation		
Initial rate	**8.00%**	9.00%
Ultimate rate	**5.00%**	5.00%
Year ultimate rate reached	**2021**	2020

15. Post-employment benefits (continued)

Sensitivity analysis

The impact of changing the key weighted-average economic assumptions used in measuring the pension and other benefit costs are as follows:

($ thousands)	Registered pension plan	Supplemental pension plans	Other benefits
1% decrease in expected long-term rate of return on assets			
Net benefit cost	$ 3,606	$ 360	$ –
1% decrease in discount rate			
Total of service and interest costs	6,635	527	1,765
Accrued benefit obligation	127,404	13,684	22,112
0.25% increase in rate of increase of future compensation			
Total of service and interest costs	690	362	27
Accrued benefit obligation	4,948	2,663	159
Assumed overall health-care cost trend rates on aggregate of service and interest cost components for period			
Impact of: 1% increase	–	–	2,253
1% decrease	–	–	(1,618)
Assumed overall health-care cost trend rates on accrued benefit obligation			
Impact of: 1% increase	–	–	19,116
1% decrease	–	–	(13,988)

Defined contribution plans

The cost of the defined contribution plans is recorded based on the contributions in the current year and is included in benefits expense. For the year ended March 31, 2013, the expense was $4.2 million (2012 – $4.1 million).

Total cash payments

Total cash payments for post-employment benefits, consisting of cash contributed by the corporation to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans and cash contributed to its defined contribution plan, were $62.7 million (2012 – $21.8 million).

Total cash payments for post-employment benefits for 2014, as described in the preceding paragraph, are anticipated to be approximately $57.1 million.

16. Other liabilities

($ thousands)	**March 31, 2013**	March 31, 2012
Reserve for insurance claims	$ **6,825**	$ 7,734
Deferred revenues	**4,781**	2,926
Other	**523**	890
	$ **12,129**	$ 11,550

17. Net interest income

($ thousands)	March 31, 2013	March 31, 2012
Interest income		
Loans and receivables	**$ 1,057,889**	$ 1,007,256
Temporary investments designated as AFS	**10,603**	10,110
Transfer of net realized gains on derivatives designated as cash flow hedges from AOCI to net income	**22,769**	18,430
Hedging derivative financial assets and liabilities designated as cash flow hedges (net)	**11,486**	13,755
Finance leases	**590**	365
Operating leases	**8,799**	6,085
Foreign exchange gains on cash and loans and receivables	**1,407**	1,953
Total interest income for financial instruments not at fair value through profit or loss	**1,113,543**	1,057,954
Venture capital investments designated at fair value through profit or loss	**1,934**	2,405
	1,115,477	1,060,359
Interest expense		
Short-term borrowings classified as other liabilities	**55,406**	48,931
Long-term borrowings classified as other liabilities	**194,758**	204,297
Transition loan liabilities classified as other liabilities	**2,429**	2,183
Foreign exchange losses on cash and short-term borrowings classified as other liabilities (net)	**1,351**	2,295
Total interest expense for financial instruments not at fair value through profit or loss	**253,944**	257,706
Borrowings designated at fair value through profit or loss	**388**	539
Derivative financial assets and liabilities classified as HFT (net)	**(276)**	(256)
	254,056	257,989
Net interest income	**$ 861,421**	$ 802,370

The total net fee income that was recognized immediately in net interest income arising from financial assets and liabilities not measured at fair value through profit or loss was $3.0 million (2012 – $3.8 million). Interest income recognized from the unwinding of discounts on impaired financial assets was $5.1 million (2012 – $6.7 million).

18. Fair value adjustment

($ thousands)	March 31, 2013	March 31, 2012
Venture capital investments designated as fair value through profit or loss	**$ 2,476**	$ 1,868
Long-term debt designated at fair value through profit or loss	**351**	431
Guarantees	**(1)**	9
Derivative financial assets and liabilities classified as HFT	**(291)**	(399)
Ineffectiveness of cash flow hedges	**(652)**	88
	$ 1,883	$ 1,997

19. Fair value of financial instruments

Financial instruments carried at fair value

The corporation follows a three-level fair value hierarchy to categorize the inputs used to measure fair value. Level 1 is based on quoted prices in active markets, Level 2 incorporates models using inputs other than quoted prices and Level 3 incorporates models using inputs that are not based on observable market data. Details of the valuation methodologies applied and assumptions used in determining fair value are provided in Note 2.

Valuation hierarchy

The following table categorizes the level of inputs used in the valuation of financial instruments carried at fair value:

($ thousands)	March 31, 2013 Level 1	Level 2	Level 3	Total
Assets				
Temporary investments	$ –	$ 164,781	$ –	$ 164,781
Derivative financial assets	–	71,172	11	71,183
Venture capital investments	546	–	72,820	73,366
	$ 546	$ 235,953	$ 72,831	$ 309,330
Liabilities				
Structured notes	$ –	$ –	$ 198	$ 198

($ thousands)	March 31, 2012 Level 1	Level 2	Level 3	Total
Assets				
Temporary investments	$ –	$ 83,813	$ –	$ 83,813
Derivative financial assets	–	67,408	490	67,898
Venture capital investments	2,694	–	50,833	53,527
	$ 2,694	$ 151,221	$ 51,323	$ 205,238
Liabilities				
Derivative financial liabilities	$ –	$ 84	$ –	$ 84
Structured notes	–	–	5,693	5,693
	$ –	$ 84	$ 5,693	$ 5,777

19. Fair value of financial instruments (continued)

Level 3 financial instruments

The following table summarizes the changes in the Level 3 valuation hierarchy that occurred during the year:

		March 31, 2013						
($ thousands)		**Derivative financial assets and liabilities**		**Venture capital investments**		**Structured notes**		**Total**
Balance, beginning of year	**$**	**490**	**$**	**50,833**	**$**	**(5,693)**	**$**	**45,630**
Net (losses) gains recognized in fair value adjustment		**(347)**		**4,988**		**350**		**4,991**
Change in accrued interest		**(132)**		**288**		**145**		**301**
Acquisitions		**–**		**16,763**		**–**		**16,763**
Repayments		**–**		**(52)**		**5,000**		**4,948**
Balance, end of year	**$**	**11**	**$**	**72,820**	**$**	**(198)**	**$**	**72,633**

		March 31, 2012						
($ thousands)		Derivative financial assets and liabilities		Venture capital investments		Structured notes		Total
Balance, beginning of year	$	924	$	46,560	$	(6,128)	$	41,356
Net (losses) gains recognized in fair value adjustment		(433)		1,719		431		1,717
Change in accrued interest		(1)		196		4		199
Acquisitions		–		9,142		–		9,142
Repayments		–		(6,784)		–		(6,784)
Balance, end of year	$	490	$	50,833	$	(5,693)	$	45,630

Net unrealized gains and losses relating to instruments still held at the reporting date recognized in the fair value adjustment are $5.0 million gain (2012 – $1.7 million gain).

19. Fair value of financial instruments (continued)

Financial instruments not carried at fair value

The estimated fair value of the corporation's financial instruments that do not approximate carrying values in the financial statements, using the methods and assumptions described below, are as follows:

	March 31, 2013		March 31, 2012	
($ thousands)	**Carrying value**	**Estimated fair value**	Carrying value	Estimated fair value
Assets				
Loans receivable	**$ 24,493,332**	**$ 24,683,726**	$ 22,580,309	$ 22,862,225
Finance leases receivable	**12,908**	**12,991**	9,541	9,678
Liabilities				
Long-term debt excluding structured notes	**11,906,034**	**12,024,794**	10,772,507	10,895,906

The estimated fair value for the performing fixed-rate loans receivable is calculated by discounting the expected future cash flows at year-end market interest rates for equivalent terms to maturity. The estimated fair value for the performing variable-rate loans receivable is assumed to equal carrying value. The collective allowance for credit losses related to loans receivable is subtracted from the estimated fair value of the performing loans receivable. The estimated fair value of the impaired loans receivable is equal to their net realizable value, which is calculated by subtracting the individual allowance for credit losses from the book value of the impaired loans receivable.

The estimated fair value for the finance leases receivable is calculated by discounting the expected future cash flows at year-end market interest rates for equivalent terms to maturity. The collective allowance for credit losses related to finance leases is subtracted from the estimated fair value of the finance leases receivable.

The estimated fair value for long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity, or by using quoted market prices where available.

For all other financial instruments carried at amortized cost, the carrying value is assumed to approximate fair value due to the relatively short period to maturity of these instruments. This applies to the corporation's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, other assets, short-term debt excluding structured notes, transition loan liability and other liabilities excluding the reserve for insurance claims.

20. Operating lease arrangements

Operating leases as a lessor

Operating leases consist of agricultural equipment leased to customers under non-cancellable operating lease agreements. The initial lease terms of operating leases range from two to five years.

The future minimum lease payments are receivable as follows:

($ thousands)	**March 31, 2013**	March 31, 2012
Amounts due		
Less than one year	**$ 8,967**	$ 6,080
Between one and five years	**17,143**	13,007
	$ 26,110	$ 19,087

Operating leases as a lessee

The corporation leases office space under operating leases. The lease terms are typically five to 10 years, with an option to renew the lease after that date.

The future minimum lease payments under non-cancellable lease contracts are payable as follows:

($ thousands)	**March 31, 2013**	March 31, 2012
Amounts due		
Less than one year	**$ 23,153**	$ 22,259
Between one and five years	**55,294**	61,514
More than five years	**53,724**	62,494
	$ 132,171	$ 146,267

Operating lease payments in the amount of $16.0 million (2012 – $15.3 million) have been included within facilities, software and equipment expenses.

21. Commitments, guarantees and contingent liabilities

Loan and lease commitments

As at March 31, 2013, loans approved but undisbursed amounted to $2,904.2 million (2012 – $3,352.9 million). These loans were approved at an average interest rate of 3.88% (2012 – 4.13%) and do not form part of the loans receivable balance until disbursed. As many of these loan approvals will expire or terminate without being drawn upon, the contract amounts do not necessarily represent future cash requirements. As at March 31, 2013, finance leases approved but undisbursed amounted to $5.8 million (2012 – $2.1 million) and operating leases approved but undisbursed amounted to $2.1 million (2012 – $2.3 million). These leases do not form part of the finance leases receivable or equipment under operating leases balances until disbursed. These commitments do not generate liquidity risk to the corporation because it has sufficient funds available from the Government of Canada to meet its future cash requirements. The Government of Canada makes short-term and long-term funding available to the corporation through the Crown Borrowing Program.

Operating commitments

Future minimum payments on contracts for technology and other services are payable as follows:

($ thousands)		**March 31, 2013**		March 31, 2012
Amounts due				
Less than one year	**$**	**10,717**	$	9,451
Between one and five years		**16,785**		26,172
	$	**27,502**	$	35,623

Capital commitments

Capital expenditure contracted for computer software at the end of the fiscal year but not yet incurred is $8.1 million (2012 – $20.4 million). Capital expenditure contracted for equipment and leasehold improvements at the end of the fiscal year but not yet incurred is $0.3 million (2012 - $nil).

Guarantees

In the normal course of its business, the corporation issues guarantees in the form of letters of credit that represent an obligation to make payments to third parties on behalf of its customers if customers are unable to make the required payments or meet other contractual obligations. The maximum amount potentially payable as at March 31, 2013, is $2.1 million (2012 – $1.6 million). In the event of a call on these letters of credit, the corporation has recourse in the form of security against its customers for amounts to be paid to the third party. Existing guarantees will expire within four years, usually without being drawn upon. As at March 31, 2013, an amount of $nil (2012 – $nil) was recorded for these letters of credit.

21. Commitments, guarantees and contingent liabilities (continued)

Contingent liabilities and provisions

Various legal proceedings arising from the normal course of business are pending against the corporation. A provision for pending litigations has been recorded and represents management's best estimate of the probable cash outflows related to legal proceedings. The information usually required by IAS 37 Provisions, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to seriously prejudice the outcome of the litigations. Management does not believe that liabilities arising from pending litigations will have a material adverse effect on the Consolidated Statement of Financial Position or the results of operations of the corporation.

In the normal course of operations, the corporation enters into agreements that provide general indemnification. These indemnifications typically occur in service contracts and strategic alliance agreements, and, in certain circumstances, may require that the corporation compensates the counterparty to the agreement for various costs resulting from breaches of representations or obligations. The corporation also indemnifies directors, officers and employees, to the extent permitted by law and the corporation's governing legislation, against certain claims that may be made against them as a result of their being directors, officers or employees. The terms of these indemnifications vary, therefore the corporation is unable to determine a reasonable estimate of the maximum potential amount the corporation could be required to pay to counterparties. Historically, the corporation has not made any payments under such indemnifications and contingencies. No amount has been included in the consolidated financial statements as at March 31, 2013, for these indemnifications and contingencies.

22. Related party transactions

The corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations.

The corporation is related to Avrio Fund I, Avrio Fund II, and Avrio Subordinated Debt Fund. They are limited partnerships for which the corporation holds 67% (2012 – 67%) and 55% (2012 – 99%) and 99% (2012 – nil), respectively, of the partnership units. Avrio Fund I, Avrio Fund II and Avrio Subordinated Debt Fund are subsidiaries of the corporation. All transactions between the corporation and its subsidiaries have been eliminated on consolidation, and as such are not disclosed as related party transactions.

Other related parties of the corporation are key management personnel, close family members of key management personnel and entities that are controlled, significantly influenced by, or for which significant voting power is held by key management personnel or their close family members, and post-employment benefit plans for the benefit of the corporation's employees.

Transactions with these entities were entered into in the normal course of business and are measured according to the relevant IFRS standard applicable to the transaction.

22. Related party transactions (continued)

Transactions with the Government of Canada

The Government of Canada guarantees the borrowings of the corporation.

The corporation enters into short- and long-term borrowings with the Government of Canada through the Crown Borrowing Program. As at March 31, 2013, the balances outstanding with the Government of Canada were $9,771.0 million in short-term debt (2012 – $9,223.2 million) and $11,490.1 million in long-term debt (2012 – $10,205.2 million). For the year ended March 31, 2013, $223.7 million (2012 – $198.3 million) was recorded in interest expense relating to these borrowings.

The corporation receives government assistance to share the credit losses on certain loans with the Government of Canada. The government assistance is recorded as either an increase or decrease to the provision for credit losses. For the year ended March 31, 2013, the increase (decrease) recorded to the provision for credit losses was $12.9 million (2012 – $0.9 million). The amount estimated to be returned to the Government of Canada is included in the long-term debt balances above.

The corporation pays a dividend to the Government of Canada on an annual basis, as detailed in Note 23.

Key management personnel compensation

Key management personnel includes directors and members of the Executive Management Team. Close family members of key management personnel are considered related parties and have been included in the amounts disclosed below.

The compensation paid during the year to key management personnel for services rendered is shown below:

($ thousands)	**March 31, 2013**	March 31, 2012
Salaries and other short-term employee benefits	**$ 3,287**	$ 3,390
Post-employment benefits	**2,228**	704
Board retainer and per diems	**175**	213
Total	**$ 5,690**	$ 4,307

22. Related party transactions (continued)

Transactions with key management personnel

All transactions with key management personnel are with directors and entities related to those directors. The terms and conditions of the transactions with key management personnel were no more favourable than those available on similar transactions with other customers.

	2013		2012	
($ thousands)	**Maximum balance during the year**	**Balance as at March 31**	Maximum balance during the year	Balance as at March 31
Loans	**$ 9,564**	**$ 5,813**	$ 6,205	$ 5,446
Leases	**24**	**11**	36	24

The weighted average interest rate on the loans to key management personnel outstanding as at March 31, 2013, was 6% (2012 – 6%).

The loans and leases to key management personnel are secured under similar conditions as transactions with other customers and the key management personnel entering into these transactions were subject to the same credit assessment process applied to all customers. No individual allowance has been established in 2013 for the loans or leases made to key management personnel (2012 – $nil).

Undrawn credit commitments with key management personnel totalled $10.2 million as at March 31, 2013 (2012 – $5.2 million).

Transactions with post-employment benefit plans

During the year, $115.3 thousand was received from the defined benefit plan (2012 – $52.6 thousand) for administrative services and was recorded in benefits expense.

23. Capital management

The corporation's objectives when managing capital are to:

- generate a sufficient rate of return from operations to remain financially self-sustaining and to fund growth and strategic initiatives;
- have the capability to withstand market fluctuations intrinsic to the agriculture industry while continuing to support its customers through all economic cycles; and
- comply with its external covenant imposed by the Farm Credit Canada Act that restricts the total direct and contingent liabilities of the corporation to 12 times its equity, or up to 15 times with prior approval.

The corporation's level of capitalization and the percentage of gross assets not requiring funding through borrowings are as follows:

($ thousands)	**March 31, 2013**	March 31, 2012 Restated Note 3
Retained earnings	**$ 2,777,823**	$ 2,346,976
Accumulated other comprehensive income	**184,752**	203,477
Contributed surplus	**547,725**	547,725
Allowance for credit losses	**640,172**	622,094
Non-controlling interest in special purpose entity	**28,387**	16,158
Total capitalization	**$ 4,178,859**	$ 3,736,430
Gross assets	**$ 26,510,986**	$ 24,451,139
Capitalization as a percentage of gross assets	**15.76%**	15.28%

Limits on borrowing

As at March 31, 2013, the corporation's total direct and contingent liabilities were 6.72 times the shareholder's equity, excluding AOCI (2012 – 7.16 times the shareholder's equity, excluding AOCI), which was within the limit established by the Farm Credit Canada Act.

Contributed surplus

The corporation's contributed surplus consists of capital contributions made by the Government of Canada net of the March 31, 1998, reallocation of $660.6 million to eliminate the corporation's accumulated deficit.

As at March 31, 2013, cumulative capital payments received from the Government of Canada amounted to $1,208.3 million (2012 – $1,208.3 million). No capital payments have been received since 2006. The statutory limit for that same period was $1,250.0 million (2012 – $1,250.0 million).

Dividend

On August 15, 2012, the Board declared a dividend based on the results of the year ended March 31, 2012, in the amount of $56.4 million (2012 – $17.5 million based on the year ended March 31, 2011) to the corporation's shareholder, the Government of Canada, which was paid on March 22, 2013.

24. Risk management

Risk governance

The corporation has established a governance framework that includes a number of policies and internal committees to guide corporate decision-making. The Board provides oversight for this internal corporate governance framework. The Board's committees are responsible for developing and monitoring aspects of the corporation's overall risk management policies, processes and practices. Internal committees report regularly to the Board and its committees. The Audit Committee oversees the effectiveness of internal controls, regulatory compliance, ethical conduct and the performance of FCC's internal and external audit functions. The Governance Committee oversees the strategic planning and enterprise risk management programs providing oversight concerning the corporation's enterprise risk management process and its integration with the corporation's strategic planning process.

Financial risk management

The corporation has identified the major categories of financial risk to which it is exposed as credit risk and market risk.

a) Credit risk

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet financial obligations to the corporation. Credit risk on loans is the most significant risk that the corporation faces.

Management of credit risk

The Board has overall responsibility for the management of credit risk and relies on a number of divisions and committees to effectively manage the credit risk that impacts the corporation:

- Portfolio and Credit Risk conducts industry, economic and portfolio analysis and reports to the various risk committees, including the Audit Committee. A number of areas within this division are involved in managing credit risk for the corporation. They include:
  - Portfolio Analysis and Modelling is responsible for the management, design and development of lending and credit risk-related models, lending scorecards and tools. It makes recommendations to the Asset Liability Committee (ALCO) to ensure that these models, scorecards and tools appropriately balance risk mitigation, growth and profitability.
  - Credit Policy and Process Management is responsible for the management of the corporation's credit policies and makes recommendations to the Credit Policy Committee to ensure that there is an appropriate balance between risk mitigation, profitability and growth. It also reviews, enhances and clarifies credit policies and communicates policy changes to employees. Credit Policy and Process Management provides ongoing interpretation of policy in relation to general and specific lending situations.
  - Credit Risk manages risk for larger loans as well as loans above established risk thresholds. It is responsible for the credit-related delegation of authorities, credit education, coaching and credit authorization. Special Credit is a function within Credit Risk that manages and resolves higher-risk accounts experiencing challenges through intensive management of accounts, arrears collection and recovery actions.
  - Corporate Credit is responsible for credit education, coaching and credit authorization for larger loan applications, including Credit Committee recommendations.
  - Valuation researches land sales, maintains benchmark data on land values and appraises the value of the corporation's security with particular emphasis on specialized enterprises and agribusinesses.

24. Risk management (continued)

- Operations is delegated authorities over lending and is responsible for managing credit risk on loans in its portfolio. Authority is granted on the basis of credit training and demonstrated competence, and credit decisions are made at an authority level appropriate to the size and risk of each loan. The division monitors customer and loan performance throughout the life of the loan through ongoing account management as well as the account review process.
- Treasury is responsible for managing counterparty credit risk related to derivative and investment activities. The division reviews counterparty credit rating actions and financial performance.

The following internal committees are involved in the management of credit risk at the corporation:

- ALCO directs the asset/liability management function, including the establishment and maintenance of portfolio risk management policies and procedures, loan pricing direction, integration with corporate strategies and achievement of portfolio return targets.
- Credit Policy Committee oversees the development of lending policies and ensures that they reflect the corporation's credit risk tolerance, industry best practices and compliance with federal, provincial and regional laws and regulations.
- Credit Committee reviews and makes lending decisions on loan applications in excess of the prescribed limits.
- Venture Capital Investment Committee oversees ongoing management of the investment portfolio including selection and oversight of third-party investment managers.

Measurement of credit risk

Portfolio and Credit Risk assesses credit risk at the aggregate level, providing risk policies and assessment tools and models that quantify credit risk and allowance for credit losses. The division also monitors the agriculture and agri-food operating environments to ensure that the corporation's lending policies, activities and prices are appropriate and relevant.

Policies, processes, systems and strategies are used to manage the credit risk of the corporation's portfolio. Each year, Portfolio and Credit Risk presents a comprehensive portfolio vision that summarizes many of these tools, models and strategies to the Board for approval. Numeric targets associated with many of these tools are set annually to assist in achieving the portfolio vision.

Significant research, modelling, validation and interpretation are used to determine the targets for each tool as follows:

Credit economic capital

The corporation uses a credit economic capital model to assess capital adequacy for credit risk. The main benefits of a credit economic capital model are to:

- measure transaction, concentration and correlation risk
- stress test the loan portfolio to estimate losses with a certain level of probability
- measure trends over time
- allow for risk-adjusted comparisons of geographic areas and business lines

24. Risk management (continued)

Portfolio diversification plan

The portfolio diversification plan outlines the desired range for portfolio composition in five years, including diversification across enterprises, geographical areas and business lines. The desired range is evaluated against other realistically achievable scenarios considering growth, profit and risk impacts.

In addition, each year the portfolio vision also establishes customer exposure limits and approval authorities.

Risk scoring and pricing system

The risk scoring and pricing system (RSPS) is used to rank risk for loans in the corporation's portfolio. Risk ranking is based on customer, loan and enterprise characteristics, and generates scores ranging from 400 to 999 points. Each score translates into a probability of default. The higher the score, the lower the probability of default. RSPS is also used to price loans.

RSPS scores are based on inputs that are categorized under four main themes:

- customer credit rating and historical payment performance
- customer financial ratios
- customer business experience
- customer primary enterprise

RSPS weights each characteristic differently to arrive at the final RSPS score. These weightings are based on the corporation's historical experience and are set with the objective to maximize the system's ability to predict probability of default.

Loan loss model

The loan loss model estimates the losses within the portfolio due to credit risk. There are two components to the loan loss model: individual and collective. The individual loan losses are determined for non-performing loans when, in management's opinion, credit quality has deteriorated to the extent that the corporation no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, individual loan losses are determined for loans that have met both of the following criteria:

- greater than $500 in arrears for 90 days or more
- security insufficient to fully recover amounts outstanding

Collective loan losses are calculated on loans within the portfolio that have met at least one of three indicators of impairment:

- arrears of $500 or greater but not more than 90 days
- an adjustment to the terms of the loan in the past year
- drop in the RSPS risk score of 15 or more points in the past year

The collective allowance is also based on those losses that have been incurred but have not yet exhibited evidence of the loss. Based on historical experience, there is an emergence period between when impairment occurs and when it becomes evident in the portfolio. From the emergence period, migration rates are used to determine incurred losses within the portfolio that are not yet evident. For all components of the loss model, the model considers the security position to estimate the appropriate amount of loss allowance.

Macro measures that demonstrate the health of the portfolio are as follows:

	March 31, 2013	March 31, 2012
Weighted average loan-to-security ratio for secured loans	**54.4%**	57.0%
Loans secured by a General Security Agreement and unsecured loans as a percentage of loans receivable	**3.1%**	2.3%

24. Risk management (continued)

Collateral

The corporation mitigates its credit risk by employing policies and practices for collateral requirements. Credit policy establishes collateral guidelines and standards. The corporation monitors the portfolio by reviewing the loan-to-security ratio, both on an overall portfolio basis and by enterprise. Upon initial recognition of a loan, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets at intervals prescribed by policy. The form of collateral obtained is generally real estate, quotas or equipment, depending on the purpose of the loan.

Loan commitments

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk, the corporation is potentially exposed to loss in an amount equal to the total unused commitments. See Note 21 for further details regarding the corporation's loan commitments.

Maximum exposure to credit risk before collateral held or other credit enhancements

($ thousands)	**March 31, 2013**	March 31, 2012
On-balance sheet		
Temporary investments	**$ 164,781**	$ 83,813
Accounts receivable	**18,665**	16,356
Derivative financial assets	**71,183**	67,898
Loans receivable	**24,493,332**	22,580,309
Finance leases receivable	**12,908**	9,541
Venture capital investments	**73,366**	53,527
Other assets	**4,144**	4,028
	24,838,379	22,815,472
Off-balance sheet		
Financial guarantees	**2,084**	1,580
Loan and lease commitments	**2,912,144**	3,357,337
	2,914,228	3,358,917
Total maximum exposure to credit risk	**$ 27,752,607**	$ 26,174,389

The preceding table represents a worst-case scenario of credit risk exposure to the corporation at the end of the year, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposure is based on net carrying values as reported in the balance sheet. For off-balance sheet items, the exposure is based on the maximum amount that the corporation would have to pay if the item was called upon.

24. Risk management (continued)

Loans receivable

Loans receivable in arrears but not impaired

A loan is considered to be in arrears when a customer has not made a payment by the contractual due date and the amount owing is greater than $500. Loans less than 90 days in arrears are not considered impaired, unless other information is available to the contrary. As well, loans in arrears are not considered impaired if there is adequate security and collection efforts are reasonably expected to result in full repayment. The longer that the customer is in arrears and interest continues to accrue, the greater the risk that the recoverable amount from the security value is less than the carrying value of the loan. Gross amounts of loans that were in arrears but not impaired were as follows:

($ thousands)	**March 31, 2013**	March 31, 2012
In arrears but not impaired		
Up to 30 days	**$ 74,914**	$ 58,744
31 – 60 days	**172,294**	63,978
61 – 89 days	**52,639**	25,667
90 days or more	**156,776**	110,290
	$ 456,623	$ 258,679

Loans receivable neither in arrears nor impaired

The credit quality of loans that were neither in arrears nor impaired can be assessed by reference to the corporation's RSPS scores. The total owing for each RSPS score bucket as a percentage of total owing that is neither in arrears nor impaired is as follows:

	March 31, 2013	March 31, 2012
RSPS score		
400-650	**0.6%**	0.6%
651-769	**15.2%**	16.1%
770-850	**64.4%**	63.8%
851-999	**19.8%**	19.5%
	100.0%	100.0%

The majority of the RSPS scores are updated on a monthly basis. For certain types of loans, different approval and credit management processes are used. These represent approximately 3% of the corporation's total portfolio.

Real estate property held for sale

The corporation has acquired real estate property from customers in the settlement of loan commitments with a carrying value of $0.3 million (2012 – $0.7 million). Real estate property acquired is sold as soon as practicable with the proceeds used to reduce the outstanding customer loan balance.

24. Risk management (continued)

Counterparty credit risk – derivatives and temporary investments

Credit risk arises from the potential for a counterparty to default on a contractual obligation to the corporation. To mitigate this risk, the corporation complies with the guidelines issued by the Minister of Finance by entering into derivatives with counterparties of high credit quality only, as determined by the published ratings of external credit rating agencies. Counterparty credit risk is managed via the corporation's Board-approved counterparty credit risk policies, which specify the maximum exposure that the corporation will accept for each level of credit rating.

In the normal course of business, the corporation receives collateral on certain transactions to reduce its exposure to counterparty credit risk. The corporation is normally permitted to sell, dispose, invest or re-pledge the collateral it receives under terms that are common and customary to standard derivative activities.

The counterparty derivative obligation may arise when market-related currency and interest factors change resulting in unrealized gains to the corporation. These unrealized gains result in positive fair values for these derivative financial instruments. The corporation is not exposed to credit risk for the full notional amount of the derivative contracts, but only to the potential replacement cost if the counterparty defaults. Furthermore, standard credit mitigation via master netting agreements provided in the International Swap and Derivatives Association (ISDA) documentation provide for the simultaneous closeout and netting of positions with a counterparty in the event of default. Credit Support Annex (CSA) documentation is also in place with most of the corporation's counterparties. These agreements are addendums to existing ISDA documentation, and further specify the conditions for providing the corporation with collateral in the event that the counterparty credit exposure exceeds an agreed threshold. For derivative transactions where a CSA is in place, the counterparty must have a minimum long-term credit rating of A- from two or more external credit rating agencies (Standard & Poor's, Moody's or DBRS). See Note 5 and Note 14 for the quantification of counterparty credit risk.

ALCO and the Board have established an investment policy that sets minimum credit ratings for temporary investments and limits the size and composition of the total investment portfolio. For temporary investment activity with term to maturity equal to or less than one year, counterparties must have a minimum short-term credit rating of A1+/R1-low/P-1 from two or more external credit rating agencies. The actual credit ratings will determine the maximum face amount of investments per counterparty.

The corporation has controls and policies in place to protect against and minimize loss due to counterparty default. The Treasury division reviews credit ratings and counterparty financial performance regularly and recommends policy changes to ALCO and the Board.

Venture capital debt investments

The corporation is exposed to credit risk through its venture capital debt investments. The corporation manages credit risk through thoughtful planning, strict investment criteria, significant due diligence of investment opportunities and by conducting activities in accordance with investment policies. The Investment Manager monitors and reports on the financial condition of investee companies regularly.

b) Market risk

Market risk is the potential for financial loss to the corporation as a result of adverse changes in underlying market factors, such as interest rates and foreign exchange rates associated with investments, and the corporation's exposure to liquidity risk.

The corporation has market risk policies and limits to ensure that exposures to interest rate, foreign exchange risks and liquidity risks are identified, measured, managed and reported on a timely basis. Market risk policies are regularly reviewed by ALCO and are approved by the Board. The corporation's policies and processes are based on industry best practices and the Minister of Finance Financial Risk Management Guidelines for Crown Corporations. The Treasury division is responsible for implementing market risk management directives and reports regularly to ALCO and the Board on its activities and asset/liability positions.

24. Risk management (continued)

Interest rate risk

Interest rate risk is the risk that a change in the interest rate adversely affects the corporation's net interest income and fair value measurements. Interest rate risk arises from interest rate mismatches between assets and liabilities and embedded options. Interest rate mismatches occur because of different maturity and re-pricing dates, residual assets funded by equity and different interest rate benchmarks for some assets and liabilities. Embedded options exist on fixed-rate loans that have principal deferral options, prepayment features and interest rate guarantees on loan commitments.

Exposure to interest rate risk is monitored primarily through an asset/liability model. Various scenarios are produced at least monthly to analyze the sensitivity of net interest income and fair values to a change in interest rates and balance sheet assumptions. The asset/liability model is back-tested and validated to ensure that the logic and assumptions used in the model are reasonable when compared to actual results.

Interest rate risk management is governed by policy, which has defined limits based on the projected impact of a 2.0% change in interest rates. The defined limit for variability of net interest income is that, for the next 12-month period, net interest income should not decline by more than 10.0%. The second defined limit is that the market value of portfolio equity (MVPE) should not decline by more than 10.0% of total equity (excluding accumulated other comprehensive income) for a 2.0% immediate and sustained change in the level and term structure of interest rates. Based on the corporation's financial position as at March 31, 2013, assuming an immediate and sustained 2.0% change in interest rates occurs across all maturities and curves, net interest income and the MVPE would be affected over the next 12 months as follows:

	2013 Impact of		2012 Impact of	
($ thousands)	**2% increase**	**0.90% decrease (1)**	2% increase	0.85% decrease (1)
Projected net interest income variability	**$ (3,271)**	**$ 2,512**	$ (3,599)	$ 1,054
Limit	**89,494**	**(89,494)**	82,073	(82,073)
MVPE variability	**(230,537)**	**103,089**	(224,065)	91,441
Limit	**(332,555)**	**332,555**	(289,470)	289,470

(1) The lowest rate on the yield curves used in the model was 0.90% (2012 – 0.85%) to avoid using negative rates.

The corporation has a third defined limit that addresses its exposure to commitment risk. Commitment risk is the risk that interest rates rise after the corporation has committed to a lower interest rate to the customer. The policy states that the decline in the fair value of the interest guarantees on new loans and renewals cannot exceed 0.5% of total equity (excluding accumulated other comprehensive income) for a 0.5% increase in rates. The net decrease in the fair value of undisbursed loans if there was a 0.5% rate increase was $3.7 million as at March 31, 2013 (2012 – $4.2 million), which was within the policy limit of $16.6 million (2012 – $14.5 million).

24. Risk management (continued)

The following table summarizes the corporation's interest rate risk based on the gap between the carrying value of assets, and liabilities and equity, grouped by the earlier of contractual re-pricing or maturity dates and interest rate sensitivity. In the normal course of business, loan customers frequently prepay their loans in part or in full before the contractual maturity date.

($ thousands)	Immediately rate-sensitive	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest-sensitive	Total
Assets							
Cash and cash equivalents	$ –	$ 881,523	$ –	$ –	$ –	$ 36,348	$ 917,871
Yield	–	1.05%	–	–	–	–	–
Temporary investments	–	139,614	24,921	–	–	246	164,781
Yield (1)	–	1.08%	1.02%	–	–	–	–
Derivative financial assets (2)	–	–	–	–	–	71,183	71,183
Loans receivable	15,577,048	1,058,649	1,781,109	5,448,957	1,050,519	(422,950)	24,493,332
Yield (1)	3.94%	5.38%	4.45%	4.63%	5.08%	–	–
Finance leases receivable	–	805	3,460	8,643	–	–	12,908
Yield (1)	–	5.19%	5.19%	5.19%	–	–	–
Venture capital investments	–	–	175	18,115	–	55,076	73,366
Yield (1)	–	–	8.00%	11.39%	–	–	–
Other	–	–	–	–	–	137,373	137,373
Total assets	**$ 15,577,048**	**$ 2,080,591**	**$ 1,809,665**	**$ 5,475,715**	**$ 1,050,519**	**$ (122,724)**	**$ 25,870,814**
Liabilities and equity							
Non-structured borrowings	$ –	$ 18,659,081	$ 694,625	$ 1,791,036	$ 764,065	$ 42,936	$21,951,743
Yield (1)	–	0.98%	2.26%	1.83%	3.12%	–	–
Structured borrowings	–	–	186	–	–	7	193
Yield (1)	–	–	6.00%	–	–	–	–
Total borrowings	–	18,659,081	694,811	1,791,036	764,065	42,943	21,951,936
Derivative financial liabilities (2)(3)	–	332,669	(186)	(94,489)	(237,994)	–	–
Yield (1)	–	1.05%	6.00%	4.26%	4.54%	–	–
Other	–	–	–	–	–	408,578	408,578
Shareholder's equity	–	–	–	–	–	3,510,300	3,510,300
Total liabilities and equity	**$ –**	**$ 18,991,750**	**$ 694,625**	**$ 1,696,547**	**$ 526,071**	**$ 3,961,821**	**$25,870,814**
Total gap 2013	**$ 15,577,048**	**$(16,911,159)**	**$ 1,115,040**	**$ 3,779,168**	**$ 524,448**	**$ (4,084,545)**	**$ –**
Total cumulative gap 2013	**$ 15,577,048**	**$ (1,334,111)**	**$ (219,071)**	**$ 3,560,097**	**$ 4,084,545**	**$ –**	**$ –**
Total gap 2012	$ 14,611,099	$(16,265,013)	$ 1,348,327	$ 3,628,478	$ 264,204	$ (3,587,095)	$ –
Total cumulative gap 2012	$ 14,611,099	$ (1,653,914)	$ (305,587)	$ 3,322,890	$ 3,587,095	$ –	$ –

(1) Represents the weighted-average effective yield based on the earlier of contractual re-pricing or maturity date.

(2) The notionals for derivatives with a positive fair value have been netted against derivatives with a negative fair value and are included with derivative financial liabilities.

(3) Represents notional principal amounts on derivatives.

24. Risk management (continued)

Foreign exchange risk

The corporation is exposed to foreign exchange risk due to differences in the amount and timing of foreign currency denominated asset and liability cash flows. The currency exposure is minimized by matching foreign currency loans against foreign currency funding. This risk cannot be perfectly hedged because the assets are amortizing loans and the liabilities are discount bonds, which creates timing mismatches for the principal and interest cash flows. However, the corporation has determined that the residual risk is insignificant.

The corporation's policy is to mitigate foreign exchange risk. All foreign currency borrowings are fully hedged at the time of issuance, unless the foreign currency denominated debt is used specifically to finance a like currency asset. The Board's policy limit for the foreign currency funding to foreign currency asset hedge ratio is a range of 90% to 110%. The corporation's actual ratio as at March 31, 2013, is 96.1% (2012 – 97.7%).

Derivatives

The corporation uses derivatives to hedge interest rate and foreign exchange risk. Derivatives alter the risk profile of the consolidated balance sheet by reducing mismatches of assets and liabilities, while ensuring that interest rate risk and foreign exchange risk are managed within policy limits.

When derivative transactions qualify for hedge accounting, derivatives are designated as cash flow hedges and are accounted for as described in Note 2. Derivative transactions that do not qualify for hedge accounting are still considered economic hedges. Economic hedges that do not qualify for hedge accounting may lead to net income volatility because the derivatives are recorded at fair value and this volatility may not be representative of the overall risk.

Venture capital equity investments

The corporation is exposed to price risk through its venture capital equity investments. The corporation manages price risk through thoughtful planning, strict investment criteria, significant due diligence of investment opportunities and by conducting activities in accordance with investment policies. The Investment Manager monitors and reports on the financial condition of investee companies regularly.

Liquidity risk

Liquidity risk is the risk that the corporation cannot meet a demand for cash or fund its obligations at a reasonable cost as they become due.

The corporation measures, forecasts and manages cash flow as an integral part of liquidity management. The corporation's objective is to maintain sufficient funds to meet customer and business operational requirements.

The corporation maintains liquidity through:

- a liquid investment portfolio – cash and cash equivalents, and temporary investments of $1,082.7 million were on hand as at March 31, 2013 (2012 – $988.0 million)
- access to short-term funding – the corporation's access to funding through the Crown Borrowing Program and capital markets provides the corporation with sufficient liquidity to meet daily cash requirements
- access to a $30.0 million bank operating line of credit

24. Risk management (continued)

The following table shows the undiscounted cash flows of the corporation's financial liabilities on the basis of their earliest possible contractual maturity. The gross nominal cash flows represent the contractual undiscounted cash flows relating to the principal and interest on the financial liability. The corporation's expected cash flows on certain instruments varies significantly from this analysis. For example, certain borrowings that may be prepaid by the corporation have not been included in their earliest possible maturities due to being impracticable to estimate.

Residual contractual maturities of financial liabilities

	March 31, 2013						
($ thousands)	**Carrying value**	**Gross nominal inflow (outflow)**	**Less than 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**
Non-derivative financial liabilities							
Borrowings	**$ 21,951,936**	**$(21,950,245)**	**$ (2,983,309)**	**$ (2,500,664)**	**$ (4,585,111)**	**$(11,059,037)**	**$ (822,124)**
Derivative financial liabilities							
Carrying value	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Cash inflows	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Cash outflows	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	$ 21,951,936	**$(21,950,245)**	**$ (2,983,309)**	**$ (2,500,664)**	**$ (4,585,111)**	**$(11,059,037)**	**$ (822,124)**

	March 31, 2012						
($ thousands)	Carrying value	Gross nominal inflow (outflow)	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years
Non-derivative financial liabilities							
Borrowings	$ 20,341,395	$(20,339,669)	$ (2,849,134)	$ (1,964,905)	$ (4,777,537)	$ (9,938,922)	$ (809,171)
Derivative financial liabilities							
Carrying value	84	–	–	–	–	–	–
Cash inflows	–	43	–	38	5	–	–
Cash outflows	–	(127)	–	(81)	(46)	–	–
	$ 20,341,479	$(20,339,753)	$ (2,849,134)	$ (1,964,948)	$ (4,777,578)	$ (9,938,922)	$ (809,171)

24. Risk management (continued)

Insurance risk management

Assumptions and measurement uncertainty

The corporation's insurance provider determines the reserve for insurance claims actuarially using the Canadian Asset Liability Method (CALM). Under CALM, the future cash flows from the insurance contracts and the assets that support them are dynamically projected in a number of scenarios prescribed by the Canadian Institute of Actuaries (CIA), using current best estimate assumptions with provisions for adverse deviation. The corporation engages independent actuaries from time to time to review its insurance program to ensure that the assumptions, methodologies and processes are prudent.

In calculating the reserve for insurance claims, assumptions must be made about interest rates, asset default, inflation, mortality and morbidity rates, policy terminations, expenses and other factors over the life of the insurance policies. Best estimate assumptions are used for expected future experience. Additional provisions are included in the reserve for insurance claims to provide for possible adverse deviations from the best estimate. If the assumption is more susceptible to change or if there is more uncertainty about the underlying best estimate assumption, a correspondingly larger provision is included in the reserve for insurance claims. There have been no changes in assumptions that have significantly affected the reserve for insurance claims in the current fiscal year.

The provisions are reviewed for reasonableness when taken one at a time and also in total. The best estimate assumptions and margins for adverse deviation are reviewed annually and revisions are made where deemed necessary and prudent. The assumptions with the greatest potential impact on net income are mortality and investment returns.

Insurance mortality refers to the rates at which death occurs for defined groups of people and are generally based on the corporation five-year average experience. In general, assumed mortality rates do not reflect any future expected improvement, except in some instances where the net effect of reflecting future improvement increases the policy liabilities.

Assumptions related to investment returns include expected future credit losses on fixed income investments. Past corporation experience and industry experience over the long term as well as specific reviews of the current portfolio are used to project credit losses.

Assumptions for termination experience are generally based on corporation five-year average experience.

Expense assumptions are based on corporation recent experience using an internal expense allocation methodology.

25. Subsequent events

The Board approved the consolidated financial statements on May 29, 2013. There were no subsequent events requiring recognition or disclosure within the consolidated financial statements between March 31, 2013, and the date of approval.

Glossary

Agribusiness and agri-food

Suppliers or processors who sell to, buy from and otherwise serve primary producers. These include equipment manufacturers and dealers, input providers, wholesalers, marketing firms and processors.

Alliances

Relationships established by contract between FCC and other agriculture or financial organizations designed to pool talents and offer expanded customer services.

Allowance for credit losses

Management's best estimate of credit losses incurred on a loan and lease receivable portfolio. Allowances are accounted for as deductions on the balance sheet from loans and leases receivable, respectively.

Arrears

All amounts that are past due by more than $500 on a loan, including impaired loans.

Basis point

One hundredth of 1 per cent, used when describing applicable interest rates or the yield of an investment (1 bps = 0.01 per cent).

Corporate social responsibility (CSR)

A company's commitment to operating in an economically, socially and environmentally sustainable manner, while recognizing the interests of its stakeholders, including investors, customers, employees, business partners, local communities, the environment and society at large, as defined by Canadian Business for Social Responsibility.

Counterparty

The other party involved in a financial transaction, typically another financial institution.

Counterparty risk

The risk that the counterparty will not be able to meet its financial obligations under the terms of the contract or transaction into which it has entered.

Credit rating

A classification of credit risk based on the investigation of a company's financial resources, prior payment pattern and history of responsibility for debts incurred.

Crown Borrowing Program

Direct lending provided to the corporation by the federal government.

Customer support program

Plans developed to proactively assist customers who may experience loan repayment difficulties during downturns in a particular segment of the agriculture industry. Individual plans can include deferred payments or flexible repayment schedules for defined periods of time.

Debt-to-equity ratio

The level of debt expressed as dollars of debt per one dollar of total equity, excluding accumulated other comprehensive income.

Derivative financial instrument

A financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates and foreign exchange rates. Types of derivative contracts include interest rate swaps, interest rate options, currency swaps and forward contracts.

Effective interest rate method

A method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period.

Efficiency ratio

A measure of how well resources are used to generate income calculated as administration expense as a percentage of revenue. Revenue is composed of net interest income, net insurance income and other income.

Embedded derivative

An embedded derivative is a component of a hybrid (combined) instrument that also includes a nonderivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Enterprise

A specific type of agricultural operation (dairy, cash crops, beef, etc.).

Enterprise risk management (ERM)

The enterprise-wide application of co-ordinated activities that direct and control an organization with respect to risk.

Fair value

The amount an independent party would pay to purchase or sell a financial instrument in the marketplace. It can be estimated as the present value of cash flows, adjusted for risk.

Foreign exchange risk

The risk of financial loss due to adverse movements in foreign currencies.

Hedge

A risk management technique used to protect against adverse price, interest rate or foreign exchange movements through the elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

Impaired loans

Loans where, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan that is $500 or more in arrears for 90 days is classified as impaired unless the loan is sufficiently secured.

Interest and currency rate swaps

Contractual agreements for specified parties to exchange currencies or interest payments for a specified period of time based on notional principal amounts.

Interest rate risk

The risk that a change in interest rates adversely impacts the corporation's net interest income and economic value.

Leverage

The relationship between total liabilities and the equity of a business.

Loan renewal rate

Percentage ratio of principal dollars renewed to principal dollars matured.

Market value of portfolio equity (MVPE)

The net present value of assets less liabilities. It is used to measure the sensitivity of the corporation's net economic worth to changes in interest rates.

Net disbursements

Disbursements represent the release of funds against approved loans. Net disbursements exclude the refinancing of existing FCC loans.

Net interest income (NII)

The difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

Net interest income margin

Net interest income expressed as a percentage of average total assets.

Notional amount

The amount considered as principal when calculating interest and other payments for derivative contracts. This amount traditionally does not change hands under the terms of the derivative contract.

Other comprehensive income (OCI)

Represents gains and losses due to changes in fair value that are recorded outside of net income in a section of the shareholder's equity called accumulated other comprehensive income (AOCI).

Prepayments

Prepayments are defined as unscheduled principal payments prior to interest term maturity.

Primary production

Agriculture operations that produce raw commodities such as grains and oilseeds, cattle, hogs, poultry, sheep and dairy, as well as fruits, vegetables and alternative livestock. Primary production also includes vineyards, greenhouses, forestry (cultivation, growing and harvesting of trees), aquaculture (growing of ocean and inland fish) and part-time farming.

Provision for credit losses

Charged to the income statement by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management.

Return on equity (ROE)

Net income attributable to the shareholder of the parent entity expressed as a percentage of total average equity, excluding accumulated other comprehensive income.

Risk scoring and pricing system (RSPS)

A tool used to evaluate the type and potential impact of risks present in each loan or finance lease to ensure FCC is adequately compensated for the risk in its portfolio. The pricing component of RSPS calculates the risk price (risk adjustment), which is the portion of the loan margin required to cover the risk of loss.

Special purpose entity (SPE)

An entity that the corporation has created for a narrow and well-defined objective for which the corporation has rights to obtain the majority of the benefits and therefore may be exposed to risks incident to the activities of the SPE.

Value-added businesses

Agriculture businesses on the input or output side of primary production that produce, transport, store, distribute, process or add value to agriculture commodities.

FCC office locations

British Columbia
Abbotsford, Dawson Creek, Duncan, Kelowna, Surrey

Alberta
Barrhead, Brooks, Calgary, Camrose, Drumheller, Edmonton, Falher, Grande Prairie, High River (S), La Crete, Leduc, Lethbridge, Lloydminster, Medicine Hat, Olds, Red Deer, Stettler (S), Vegreville, Vermilion, Westlock

Saskatchewan
Assiniboia, Carlyle, Humboldt, Kindersley, Meadow Lake (S), Moose Jaw, Moosomin (S), North Battleford, Prince Albert, Regina, Rosetown, Saskatoon, Swift Current, Tisdale, Wadena (S), Weyburn, Yorkton

Manitoba
Arborg, Brandon, Carman, Dauphin, Killarney (S), Morden, Neepawa, Portage la Prairie, Shoal Lake (S), Steinbach, Stonewall (S), Swan River, Virden, Winnipeg

Ontario
Casselman, Chatham, Clinton, Essex, Frankford, Guelph, Kanata, Kingston, Lindsay, Listowel, London, Mississauga, New Liskeard (S), North Bay, Owen Sound, Simcoe, Stratford, Thornton, Vineland, Walkerton, Woodstock, Wyoming

Quebec
Alma, Blainville, Drummondville, Gatineau (S), Granby, Joliette, Lévis, Rivière-du-Loup, Salaberry-de-Valleyfield, Sherbrooke, Ste-Marie, St-Hyacinthe, St-Jean-sur-Richelieu, Trois-Rivières, Victoriaville

New Brunswick
Grand Falls, Moncton, Sussex (S), Woodstock

Newfoundland and Labrador
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